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THE ECONOMIC WAR



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THE ECONOMIC WAR

BY

GEORGE PEEL

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The Financial Crisis of France,
and of

The Economic Impact of America.

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PREFACE

IN the course of 1925 I published *The Financial Crisis of France*. That book was written half-way through the crisis which lasted from the opening of 1924 up to the latter half of 1926. Grounding myself on technical considerations to which I need not refer, I concluded that France would not merely surmount her existing troubles, but would, very shortly and without difficulty, establish the Gold Standard.

In the course of 1928 I published *The Economic Impact of America*. This was written in the middle of that period of financial inflation which ran from the close of 1926 nearly up to the close of 1929. In this case my conclusion was that great forces, "beyond the ken of London or the control of Washington," were preparing another of those reversals of fortune which are the standing feature in American Economics.

In the present volume, while pursuing the same method of economic argument as before, I deal with a subject of wider scope and of more poignant interest for ourselves.

GEORGE PEEL.

27, BELGRAVE SQUARE, S.W. 1 *

September 1930.

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THE ECONOMIC WAR

CHAPTER I

THE ECONOMIC WAR DEFINED

IN 1919, with the departure of the Kings and Captains, a new warfare began to gather at their heels as they went. Mercifully, this conflict promised, and has proved, to be not in the military, but in the material, order of things. In fact, it was essentially economic, now that Mars was surrendering the command to Mammon. And economic it remains, and will continue to be.

But beyond this bare and simple fact it has been excessively difficult to probe with certainty, so as to discern the precise issue at stake. That this disability should have attended us hitherto, is attributable not to any lack among us of sagacious statesmen, of excellent men of business, or of profound economists, in whom, indeed, our age has been particularly rich, but rather to the inherent character of the situation itself. For the truth is that the years which have elapsed since 1919 up to our own day have been marked by a confusion of forces so bewildering and so unprecedented as to baffle the world.

The justice of this latter observation can be

verified, from whatever angle we review the economic history of these recent years. If currencies be considered, what antics have we not beheld !

Thus in the recent monetary history of Europe there have been six nations, all neutral during the War, whose systems have remained fairly stable. But, apart from these minor powers, we have had a group of five important nations, including France and Italy, whose currencies have fluctuated widely, though the fall was arrested in time; and next, a group of eight others, including Germany and Russia, whose records in this respect have registered a complete collapse.

Yet—and this is the noticeable point—the recovery has often been as sensational as the ruin. Thus at one date in November 1923 the German mark had fallen to exactly one billionth of its pre-war value. Nevertheless, only some eight or ten weeks later that currency was satisfactorily anchored to gold.

As regards our more humdrum selves, we may remember that, up to the end of 1918, thanks to the adoption of certain measures which need not detain us, the pound sterling remained artificially stabilised at a level somewhat under parity. Throughout 1919 a violent fall was witnessed, culminating during the early months of 1920 in a formidable depreciation of about 34 per cent. From that date onwards the pound, in its relation to gold as represented by the dollar,

danced up and down in a sequence of remarkable convulsions up to the close of 1921. At length in the latter half of that year an upward lift seemed definitely to predominate. There was, indeed, another sharp set-back in 1923. But from the close of the latter year the ascending impulse finally asserted itself, until parity was at last regained early in 1925.

Similarly perturbed has been the history of those currencies outside Europe which have been linked to silver. On the one hand, we have seen the Indian standard blown up, when silver rose to unprecedented prices. Conversely, when silver fell like a cataract in 1929 and 1930 a violent repercussion extended throughout the markets of the Far East.

In the monetary history of mankind there have been many disastrous episodes, but not such world-wide fluctuations as these. The significance of them is not merely technical. Such changes, being necessarily unequal in their incidence, are fraught with social injustice. Depreciations and appreciations alike produce a blind and irrational redistribution of wealth in the community. The profiteer and the pauper are their twin offspring.

If we turn from currencies to budgets, the same melodrama has been enacted. Perhaps here the most singular case has been that of Germany. During part of the period in question the budget of the Reich was practically blotted out of being, or, at any rate, was reduced to taking post on

the right-hand side of those decimal dots once anathematised by a British Chancellor of the Exchequer. To be plain, if we calculate the ratio of the tax receipts collected by the German Government to the payments made simultaneously by the same during, say, the latter half of 1923, that ratio comes out at well under 1 per cent. Borrowing had thus almost wholly superseded budgetting: revenue had dwindled to a mere decimal fraction of expenditure. Yet three months had not passed ere the entire national expenditure of the Reich was being met by taxes, with a considerable surplus besides!

Thus, one of the most sensational budgetary changes ever recorded was completed within the space of a few months of these singular times.

To furnish another illustration from budgets, it will naturally be agreed that France, a victor in the War, the recipient of a huge annual indemnity, and the possessor of a remarkably stable economic organisation, would be likely to run a very different course from that of her great rival. Nevertheless, in July 1926 even France seemed insolvent.

On that occasion bankruptcy knocked at the door of the French Treasury. Only about one million of very depreciated francs were available. Large repayments of short-term debts were due; great sums, now non-existent, were needed in a few days' time to pay the salaries of the Civil Servants; the State had important obligations falling due in respect of its external debt. On

the first day of August, £2 million had to be paid to America; while during that same month £3 million was payable to the Bank of England. France seemed to be on the verge of ruin, and the franc exchange fell to about 240 to the pound. There was a panic-stricken flight from the franc.

Then a miracle apparently occurred. In a few weeks' time funds had poured in; *rentes* rose in value; the franc flew upward; the public rushed to renew their lendings to the Government on its short-term bonds; revenues were accumulated sufficient not merely to meet the current sterling obligations, but also those falling due in 1927. The budget of the calendar year 1926, so it officially appeared, closed with a surplus, and, more surprising still, Parliament passed the budget of 1927 without controversy. A *Caisse d'Amortissement* was instituted for the double purpose of funding the short-term debt and of liquidating the National Debt itself. That great crisis, so deeply rooted in the past, which, since the opening of 1924, had threatened the very existence of the Republic, vanished like a ghost. The Gallic cock had crowed!

Our own budgetary history in these last years since 1919 has been in no way so sensational, and yet, in its calmer manner, it has been epoch-making too. As we are all aware, we have been oscillating between huge surpluses and huge deficits. But, much more than this, the combined expenditure of our national and local authorities has grown from about £400 million

in 1913-14 to upwards of three times that amount. Another record! How rich—or how ruined—is the British public!

If we pass from currencies and budgets, which, after all, are only the symptoms and not the substance of economic being, the same lesson is more deeply impressed upon us, as we glance at the post-war economic life of the nations at large. Take, for the sake of example, the experiences of such diverse peoples as those of Australia, the United States and Russia.

As the traveller enters Sydney Harbour at dawn from the Pacific, and views, through the mighty headlands at the entrance, bay enfolded within bay, all crowned with low hills, themselves crowned with the cloud-capped towers, the gorgeous palaces, of wealth and commerce, he feels as though the night, in passing, has bequeathed its most unimaginable dream. And when, after traversing that mighty Continent, he stands at its western gate, at Perth, in King's Park, beneath the statue of John Forrest, peer and pioneer, the same sense of wonder will once more be his. Yonder, at the foot of those slopes glowing with all the radiance of the Antipodean flora, the Swan and the Canning Rivers pool their waters and wheel majestically to sea.

The Continent, across which such a traveller has made his way, is peopled by a nation than whom, surely, there should be none more prosperous or more truly blessed. They enjoy every climate at its choicest season, from the

tropical to the temperate zone. They revel in all the most generous gifts of Nature, the best wheat lands, the best dairy farms, the best pastures for sheep and cattle, all in boundless and incredible profusion, that Providence has anywhere bestowed upon man. Their stores of coal and iron are in a sense untouched. Their economists aver that in population they are not far from the optimum, *i.e.* that their numbers are so happily related to their national resources as to secure for them the utmost affluence obtainable by man. Some six and a half millions of a magnificent stock of men stand in undisputed possession of a territory of the size of the United States of America. A Continent for a People ! A People for a Continent !

This Paradise harbours no enemies within its gates, and, if there are such without, that danger is averted by an all-powerful fleet, provided by a kindred and friendly people, whose services are gratuitously available at any crisis. The future of most young nations is contracted and embarrassed by lack of accumulated capital. Not so here. For, during the generations past, the most efficient and facile money market in the world has lavished its funds upon them at a price far below that which they could otherwise command. Nature herself has repealed, or drastically amended, in their favour her Law of Diminishing Returns. Even the "marginal" man of the Marshallian mathematics lives not here, as he scientifically should, on the verge

and rim, but in the hub and centre, of prosperity.

And yet, in 1929 and 1930 some serpent had poisoned all this Paradise. All budgets, whether of the States or of the Federal Government, were in deficit. The accounts of the public enterprises were awry. The currency was rapidly falling in relation to gold. All asserted that Australia could not, and would not, employ another immigrant from home. By those Elysian waters of Sydney Harbour strolled thousands of gloomy and disgruntled men, their hands in their pockets, out of work. Down the streets of Melbourne the distressful flotsam and jetsam of industry drifted to and fro. Statisticians averred that there were more unemployed, in the ratio of the population, than in England herself. Perpetual strikes or lock-outs disfigured and distracted the body politic. A Paradise had suddenly become a Purgatory, or something worse.

If we turn from the experience of Australia to that of the United States, we are confronted with reversals of fortune unparalleled too.

Since the close of the War every cloud, it seemed, had finally been removed from the prospects of the United States, and the sunshine of their prosperity was positively blinding for all beholders. Thanks to the War, they had been transformed from a debtor to a creditor nation. In June 1923 we ourselves agreed to pay them no less than £2,222 million, spread over a period

of years, while other nations followed suit on a more modest scale. To attempt to describe the figures of their wealth in every department would be to flounder in astronomical statistics. Economically, the United States towered over humanity, as Kilimanjaro mountain dominates the pigmy tribes at its feet. And then, in 1929, in the midst of this beatific scene, the Bank of England put up its rate.

Instantaneously, the mightiest boom in the history of the world burst. Kilimanjaro crumbled. The pigmies became men. Such a cyclone smote Wall Street as to knock off from its values no less than forty thousand million dollars, and to project several millions of unemployed from the factories into the thoroughfares of that nation which just before had "solved all the problems of finance and industry."

But more bewildering still has been the recent economic history of Russia.

The Russian Revolutionary Government, on attaining power in 1917, seems to have inherited an economic system very nearly in collapse; at any rate, the currency had been depreciated by two-thirds already. The economic policy now initiated by the Revolutionary Government was to abolish the institution of money altogether. For, since the individual economic man was not to exist further, there was evidently no reason for supplying him with any medium of exchange in regard to goods which he must neither sell nor purchase. Besides this, there was also no

reason for the Government to countenance the existence of a medium which, if accumulated by the individual, would constitute private capital. All this culminated in the decree of June 18th, 1920, which proclaimed the policy of "establishing a national accountancy without money, in order to abolish the whole monetary system." In other words, the entire economic exchanges of a population of 133 millions of persons were to be conducted by barter under the direct management of the Government.

This was the most gigantic experiment in exchanges ever undertaken in the history of the world. Viewed from the standpoint of abstract economics, it would have been of the highest importance if it could have been resolutely pursued. But, no. Amazing to relate, all this was entirely reversed in a few months' time on the adoption of the New Economic Policy in March 1921. Thus, when the British Trades Union Delegation to Russia arrived in 1924, they were astonished to find a regular gold standard in operation, with all its appurtenances : " We have in the Tchernovetz a currency which is the opposite extreme to that aimed at by War Communism . . . a gold standard which is based on its relationship with foreign gold standards, and especially the pound sterling . . . a handsome silver currency, which to a value of five million sterling was minted in England"—and all this administered since 1922 by an institution, the New National Bank, " clearly

modelled on the Bank of England." Thus, altogether, "the general conclusion will be come to by any impartial inquiry that not only is Union finance now on the right lines, but it is a long way ahead of Continental countries, which are at present profiting by the confidence of the foreign investor." ¹

Here, then, is yet another illustration, perhaps the strangest, of the incalculable fluctuations in the post-war economics of the world. In one month we witnessed the Government of the second most important nation, utterly all-powerful, just embarked on a definite theory of human existence, and implacably resolved to carry that policy into execution. Not a dog barks. All chant the Communistic chorus. There is not, there cannot be, any opposition. Yet only a few months later the same Government is found pursuing diligently a financial policy not only radically inconsistent with all the principles of Communism, but one modelled upon the respectable and traditional principles of someone so far removed from Bolshevism as the Old Lady of Threadneedle Street herself!

But, after all, this financial *volte-face* was only one of the outward signs of a change of economic policy more complete and more sudden than had been witnessed on such a scale before. As our good Trade Unionists acquaint us, in Russia "at the height of Communism in 1920, the worker

¹ *Russia*, the Official Report of the British Trades Union Delegation to Russia, 1924, pp. 24, 26, 27, and 40.

was practically a conscript in an industrial army. He received his rations irrespective of his services. He was given his job without respect to his own wishes or capabilities. He was not allowed to do anything else, and he did, in consequence, as little as he could." This was a perfectly clear situation: an economic theory, whether good or bad, was in full operation over no inconsiderable portion of the world.

Yet, a few months later, so our Delegation reports, a diametrically different industrial system, based on the opposite philosophy of life and labour, is in full rig. "Now Labour is again, as elsewhere, a commodity of which the value is ruled by supply and demand and regulated by social legislation." There has been effected by magic "the restoration of private employers and the reorganisation of State enterprises on a business basis. . . . Employment has been based on free contract subject to regulation of the usual character." And "the way of dealing with the evil of unemployment is very like our own." Only, the Government has still retained some special powers, "from fear of a general flight from Government into private employment."¹

Thus Russia momentarily in 1921 executed an economic change as great as we in England have painfully accomplished in four centuries. Our Parliament, under Henry VIII, considered

¹ *Russia*, the Official Report of the British Trades Union Delegation to Russia, 1924, pp. 148, 149 and 154.

the man out of work to be a public enemy, and enacted death for the "sturdy vagabond" on the third occasion of his seeking relief. But it took us four centuries—not four months—to pass to the opposite theory embodied in our Unemployment Acts.

By citing the above instances from such representative countries as Britain, Russia, Germany, Australia, the United States, and France, I have perhaps sufficiently indicated that, in the few years which have elapsed since the close of the War, we have experienced an economic confusion unparalleled in the history of the world. Where will you find recorded economic events of such stupendous size, of such electrical speed, of such staggering topsyturvydom—and all comprised in a few years' space?

It has been inevitable in such circumstances that the clearest heads, the hardest thinkers, should be somewhat at a loss.

Unfortunately, the difficulties of exact observation have been further accentuated by another cause, which the philosophers might describe as subjective. In other words, not only have the economic phenomena of these years proved highly intractable to precise analysis, but also we have cultivated in ourselves a mental attitude not very well adapted to the task of understanding them. A calculated optimism has much distorted our powers of reflection. This is a habit which we owe partly to the War, and partly to our American cousins.

During the War there was built up a peculiar mentality which has accompanied us into civil affairs. By a military convention which was doubtless essential to the public safety and to the success of our arms, it was deemed essential to maintain, in all circumstances, an appearance of uniform good spirits. Complacency was an obligation. Disasters had to be diluted prior to public consumption. So, we had sanguinary battlefields—and sanguine bulletins.

If I may illustrate the matter from an experience of 1915, a private in the 29th Division at Cape Helles, on being treated for a wound at the Field Hospital, was diagnosed—so the operating surgeon asserted—with a wound through his throat of so peculiar a nature that it could only have been produced at a moment when that organ was distended with merriment. On questioning the unit who had thus so narrowly escaped death, the surgeon ascertained the facts. It seems that his brother had passed down the trench to acquaint him of the demise of their father in Ireland. As he was making the sad communication, the brother had unfortunately himself been shot. The bereaved soldier, according to his own account, had at once thrown up his head in order to laugh as loudly as possible at this double event. It was in this posture of official cachinnation that a shrapnel bullet had caught his, fortunately, distended gullet. To such a point had optimism been instilled at an early period of hostilities into the very rank and file !

After the War was over, this optimism at all hazards was transposed into the sphere of economics, with the most important practical results.

The first result was that during these years since the War, in spite of all the catastrophes described above, the public accepted and acted upon two economic myths, or sagas, one being that of the Millennium, and the other that of the Millions. As regards the first of them, who has forgotten the eloquent proclamation issued in November 1918 by our leading statesmen? After jointly declaring, in an unfortunate prophecy, that "the knell of military autocracy has sounded for ever in the Continent of Europe," they adumbrated the advent of "the golden times of peace."

By December 1918 the flowing tide of the Millennium was running so strong that even President Wilson, though himself an optimist, before leaving our shores for America seems to have thought it necessary at Manchester to warn our public that "it is not, perhaps, the golden age" which was upon the world. However, he compromised on the note of "an age which, at any rate, is brightening from decade to decade."

This golden, or gilt-edged, future was presently reinforced by another myth, or saga—that of the Millions.

A committee of experts, presided over by a distinguished Australian Premier, pronounced unanimously, with the endorsement of the

Government, that no less a sum than £24,000 million was to be obtained forthwith from Germany. This was one up on the Millennium itself. This myth, or saga, 'enjoyed an extraordinarily tenacious life. It is only step by step that the public has been undeceived, until it was authoritatively settled in January 1930 that all that was available was £1,700 million, payable by a series of annuities spread over a period of fifty-nine years. Even out of that relatively modest sum we ourselves shall receive not a farthing of net revenue.

As these visions spread their wings and departed, our economic sight was clouded by another form of optimism, imported this time from across the Atlantic.

Those of us who have studied American psychology are aware that, in that country, optimism is not an individual idiosyncrasy, but has become a matter of mass production. With us it is a mental condition : with them it is a marketable commodity. Yonder, the oil of gladness is on universal tap.

Even to the hard heart of an economist this organised optimism of America may appear natural and justifiable, in view of the incredible fortune of that people. And besides, it has proved, in several departments, to be of genuine business value. So we began to import it, but with less successful results than over there. In the City and in Parliament, and even among economists, an optimism, not really in accord

with our situation or with our national disposition, began to be in vogue. Eminent City authorities preached the doctrine of "the restoration of our great basic industries to their pre-war position." But what was more required was the reconstruction of the organisation of coal, of steel, of iron, of cotton, and of wool.

The extent of the spread of this spirit in Parliament may be judged, to take one instance only, from the policy pursued in regard to the National Debt.

It will be admitted that, since our net nominal deadweight debt was something over £7,500 million in 1921, the first normal year after the War, it was highly important to take measures to reduce it. And all the more because of a further very serious consideration. Prices had already begun to fall from their abnormal war level. As prices fell, the real burden of the debt was increasing, and must increase, in correspondence. Therefore, it was imperative, unless you adopted a highly optimistic view of the future, to decrease it as soon as possible. On the contrary, we witnessed heavy reductions of taxation for three successive years after 1921 at an average of no less than £50 million. And next we witnessed years of increasing general expenditure.

The result of all this was that the net nominal deadweight debt, which in 1921 was something over £7,500 million, was in 1929, if we take the date at which optimism began to be abandoned,

at about the same figure of £7,500 million. Thus nothing had been done in reduction even of the nominal amount.

But this failure was, even so, relatively unimportant compared with the increase in the real burden which had been effected meanwhile by the fall of prices. Taking the wholesale price index at 100 in April 1914, this had risen to 173 in 1921; by 1929 it had fallen to 133. This meant that for the nation the real burden of the debt, during the latter period, had increased by not far from 30 per cent. That index-number is about 112 to-day.

Another proof of how our economic vision has been impaired by optimism derived from America may be afforded by the history of the World Economic Conference, which met under the auspices of the League of Nations at Geneva. It was attended by the representatives of no less than fifty nations. These, in turn, were attended by a throng of two hundred and twenty-six experts, those nebulae whose function it is to enlighten the big stars.

The Final Report of the Conference, dated May 1927, was unanimously approved. In announcing it to the world the President of the Conference hailed the attainment of "a real and permanent result—it goes far beyond the hopes which were cherished when you began your labours."

The President further added that the Conference "marked the beginning of a new era,"

as, indeed, most Conferences, and even some Committees, do. The Report declared that "the time has come to put an end to the increase in tariffs, and to move in the opposite direction." It only remained for the delegates to disperse, in order to "disseminate and secure the triumph of the truths which we have formally proclaimed."

Thus Cobdenism had at last come true. Our trumpets sounded, and the Protectionist Jericho tottered. In our hopes, that is, but not in reality. For the Geneva delegates, on retiring to their respective Jerichos, have done little else than strengthen the walls, repair the breaches, and raise the parapets.

The above examples indicate the formation during these post-war years of a psychology hitherto outside the reckoning of economists. Professions have no longer any permanent relationship to performances. Our cruder ancestors would have dismissed all this under the terms of self-deception or hypocrisy. But it would be a profound mistake so to conclude. To borrow an illustration from the contemporary stage, this mentality is of such stuff as the plays of Pirandello are made of, those plays which have in our own day bewildered the unsophisticated public from Clapham or Golder's Green, hitherto habituated to Gilbert and Sullivan or Pinero. But to pursue that subject would lead us too far afield. Let us hope that it may be scientifically studied in the land of its origin, where some prominent citizen of means could gain im-

mortality by endowing a Chair of Emotional Economics.

But the disappointment thus described above has proved almost trifling compared with the deception of our calculations in regard to the reduction of armaments, the special end and object of the League of Nations itself. It was remarked above that we had somewhat unduly reduced our taxation in certain years recently. But, after all, this was a pardonable mistake in view of the assertions then accepted that our financial burdens in respect of armaments would be presently reduced by the agency of the League of Nations.

Our Chancellor of the Exchequer in 1930 exposed the facts in what he termed a "sad commentary." He hammered the sounding brass and clashed the tinkling cymbals in ruthless style. "Every one of the Great Powers of the world, except Germany, who has been compulsorily disarmed, is spending much more on armaments than it spent before the Great War." "The nations of Europe are spending annually on armaments £520 million. The world expenditure on this purpose is £900 million; of which 60 per cent. is expended by European countries, about 20 per cent. by the United States, and 20 per cent. by the rest of the world."¹

Thus the particular nations most responsible for the League, *i.e.* those of Europe and the

¹ The Rt. Hon. P. Snowden, in *The Times*, Feb. 10th, 1930, p. 18.

United States itself, are themselves spending 80 per cent. of the world's total outlay on war. Nor is this all. The United States, the parent of the League, is spending so hugely on this purpose that "the total is much higher than that of any of the other Great Powers of the world . . . the average annual expenditure of the United States on armaments, including ordinary pension charges, in four years before the outbreak of the Great War, was £92 million. Ten years later it had risen to £175 million." The Chancellor did not add that the expenditure nowadays, pound for pound, is devoted to incomparably more lethal weapons than before.

So far, then, I have endeavoured to show that, from the conclusion of the War almost up to our own time, two converging factors have combined to disguise the realities of the situation from us. First, there has been what may be termed the objective factor—that is, the elements of economic life have exhibited a confusion, and even a chaos, so unparalleled as to render them exempt from exact analysis. And next, there has been the subjective factor—that is, the distortion of our judgments due to an optimism partly ingrained into us by the War and partly imported from America.

However, if we may turn to some account that optimism which, so far, has served us only indifferent well, let us hope that our minds, effecting their escape from the economic Bedlam, can now resume their poise and grip.

If so, we shall discern, I think, that we are involved in an Economic War, which may be said to be fought on two fronts. There is, first, the old issue between Capital and Labour, with which we are all so familiar.

As regards this first issue, my contention is that we are witnessing the gradual abatement of this historic strife. It still harasses us. It has contributed materially to the chaos of these post-war years. Eminent authorities can write and speak and act on the assumption that it is the dominant issue of to-day. Nevertheless, my argument is that the central focus of the Economic War is passing to another battlefield. For Labour conquers Capital. Its victory is assured.

That issue is being replaced by another one, of wider scope and more momentous in character. Of wider scope, because it is not only national, but international. More momentous in character, because, whereas the old issue of Capital and Labour hinged on the division of the profits of industry, this other one hinges on the question as to whether there are to be any profits at all.

This second issue is that of Labour against Labour.

CHAPTER II

THE CAUSES OF STRIFE

AT the close of the last chapter it was asserted, rather arbitrarily and without argument, that we are witnessing the closing scenes of that old historic strife between Capital and Labour. Almost in writing those lines I chanced upon an article written by a Member of Parliament of distinction with reference to that very subject. He expresses an opinion diametrically opposite.

“To-day,” he declares, “the citadel of Capitalism is defended by trained legions, efficiently officered, heavily armed with up-to-date mental artillery, and skilled in every device of modern political warfare.” With more to the same effect, from all of which we may gather that the fight, so far from abating, is very much alive, and that the Apollyon of Capitalism is all out to waylay the industrial Pilgrim’s Progress.

If we turn from this isolated opinion to an infinitely more important testimony, the official programme of the views of a great Party in the State, we are met by the same opinion. *Labour and the Nation* criticises Capital for no less than ten ‘betrayals’ of vital interests, in respect of the Unemployed, of Organised Labour, of Industry, of the Children, of the Homeless, of the

Industrial Worker, of the Ratepayer, of Local Government, of Peace, and, finally, of International Labour.¹ A sombre catalogue !

Beyond this official manifesto we have many other declarations of the highest importance. The eminent author of *Socialism, Critical and Constructive*, enforces this conception upon us with infinite eloquence and learning.

For he contends that the wage-earner is caught "in the capitalist machine," and is involved in a "more intangible form of slavery" even than in the old downright days. "He is a thing of the whim, or the profit, of others." The wage-earner has to turn out great masses of wealth, among the most deadly objections to which are its "utter uselessness," and even its "positive harmfulness." We must, accordingly, contemplate "an unrest which can be satisfied by no charity, no concession, no compromise—a challenge ever sounding between Labour, representing the human spirit, and Capitalism, representing the economic organisation."

This is not all. Capitalism is not merely ensconced inside a well-officered citadel, but marches forth to war. "Capitalism challenges Labour to fight a battle," and Labour will pick up the glove. For Capitalism "actively threatens to exploit the community," so that the battle must be waged vigorously, "until at last the mere Capitalist has disappeared from the scene."

¹ *Labour and the Nation*, as revised in October 1928, 58 pp. Pp. 7-11.

This economic Armageddon has been inevitably brought nearer by the Armageddon of 1914-18. "Capital is stronger in its organisation than it was before the War," so strong, indeed, that it is even conceivable that Labour may be beaten, forced to fight "under conditions which make its defeat almost inevitable." At any rate, battle must be joined, because "Capitalism, as a system of production, contains inherently within itself a fatal conflict with Labour."¹

Let me devote this, and the next three, chapters to an analysis of this quarrel between Capital and Labour.

The main cause is the inequality of the distribution of wealth in this country, whether in the shape of income or of capital.

If we take a just and impartial view of the history of the last two centuries, we shall perhaps conclude that the two most powerful individuals in them were Rousseau and Karl Marx. Though the former wrote both on politics and economics, his gigantic influence has been political. Though the latter wrote on economics and politics, his equally immense power has been economic.

Though one was a German and the other a Frenchman, and though a world of events and a century of time divided them, their fundamental thought was the same. This thought, though stated in fifty volumes, can be comprised in a word. This word is—Equality.

¹ The Rt. Hon. J. Ramsay MacDonald, P.C., M.P., *Socialism, Critical and Constructive*, edition of 1929, pp. 30, 35, 38, 45, 48, 53, 92, 111, 117, 123, 128, 139, 149, 198.

In the case of each of them this word, Equality, was winged and wirelessly round the world on ether waves of the most prodigious passion. "The gospel of Jean Jacques," as we are all aware, bore its first fruits in the French and American Revolutions, and in many more revolutions beyond our field. The gospel of Marx spreads its fruits very patently in front of us to-day. It is true that, by too much reliance on the philosophical speculations of Hegel, Marx nearly ruined his influence with the public. Fortunately for him, he presently dispensed with the conclusions of his master, finding it necessary, in his own phrase, to "turn them right side up." Thus saved, he issued his famous Manifesto. Its moving force lies in his application of the belief in equality to the distribution of wealth.

As regards the impact of this idea of equality upon Great Britain, its effect, however politically important, was economically of slight immediate effect.

The fundamental concept of our British economic thought had been posited long ago by the philosopher John Locke, who, as much as anyone else, may be termed the founder of our school.

Locke stands in defence of private property. His thesis is that Nature presents her raw materials to man, these being primarily in the possession of nobody in particular. Man, or, more exactly, the isolated and independent

individual, proceeds to "mix" his labour with the raw material of his choice. He thus makes Nature conformable to his wants, and it is this labour which justifies the individual's right to personal property thus created. The degree and extent of labour are thus the measure of the right to possess property. Evidently such a theory fully admits inequality in the distribution of wealth.

This theoretic admission of inequality proved something of a stumbling-block to later economists. How could society be constructed on these individualist lines? They felt some qualms. So the theory was laid down that, in economics, all individual rivalries and ambitions are overruled by Providence to some common social purpose, and are thus transmuted into the public good. The eighteenth-century poet wrote :

"Thus God and Nature planned the general frame ;
And bade self-love and social be the same."

Similarly, Adam Smith, in *The Wealth of Nations*, wrote that the selfish interests of individuals pursuing their private gains were not harmful to the Commonwealth, being over-ruled, as he phrased it, by "an invisible hand." On this authority, and by the agency of this argument, the inequality characteristic of the English economical structure held its own undisturbed throughout the nineteenth century, in spite of the thunders of Marx rolling round the world.

"An invisible hand," invoked in the last

resort for the justification of our economic order ! There was a touch of mysticism here. The fixity of the old abandoned mediæval economy had been justified, also, in its day, on supernatural grounds. It had been defended by St. Thomas and his school as part of the Divine order. This mysticism, expelled at the Renaissance, was thus returning to rule us now, and to be re-incorporated, throughout the nineteenth century, into the most prosaic and materialistic of schools !

Perhaps the explanation is that this mysticism of Adam Smith and of his followers was of a modernised type. It was mysticism arm in arm with the main chance.

However all this may be, our economic inequality was practically unchallenged during the nineteenth century. It is true that Dudley Baxter exposed it for the first time in 1868. He put our national income for 1867 at £800 million, or a little over. The population was analysed as falling into two halves. About 23 per cent. of them were receiving about 60 per cent. of the national income. The remaining 77 per cent. of the population, consisting of the wage-earners, were receiving the balance of this income, *i.e.* about 40 per cent.

Moved by his own conclusion, Dudley Baxter indulged in a passage of stately mid-Victorian rhetoric. "There is in the Atlantic an island—the Peak of Teneriffe—which rises from the sea in a pyramidal form to a height of 12,000 feet, conspicuous from every point of the horizon,

casting its shadow from the morning or evening sun, fifty miles over the ocean. I have often thought that such an island is a good emblem of a wealthy State, with its long low base of labouring population, with its uplands of the middle classes, and with the towering peaks and summits of those with princely incomes.”¹

Those eloquent mid-Victorians ! But nothing happened. No faith, adequate to the task of removing such a mountain as this economic Teneriffe, was alive.

Writing in later times, and conducting a post-mortem examination of that epoch, Dr. Bowley has calculated how matters stood in 1880. The total national income, according to his estimate, was a little over £1100 million. The wage-earners were calculated to be in the receipt of 41½ per cent. of this total income.

Generally speaking, however, the nineteenth century did not concern itself overmuch with the statistics of inequality. It is true that there was the Report of the Royal Commission on Labour of 1894. The Commissioners concluded that, though “perhaps” things were improving generally, there was “a deplorably large residuum of the population, chiefly to be found in our large cities, who live wretchedly poor lives and are seldom far removed from the level of starvation.”² But this was all too vague to move the public. The cry rather was that people should save,

¹ *The National Income, The United Kingdom, 1868.*

² *Fifth and Final Report, 1894, p. 24.*

should "put by" for a rainy day. But if most people could not, and only some could, evidently that would only increase the inequality once more.

It was at the opening of the twentieth century that a startling signal was hoisted by a statesman who, soon after, was destined to be Prime Minister. In the midst of its relative contentment Campbell-Bannerman surprised the British public by an asseveration founded on some recent investigations. He declared in June 1903, that "there is about 30 per cent. of our population underfed, on the verge of hunger. Thirty per cent. of the population comes to something over 12 millions . . . about 30 per cent. of the population is living in the grip of perpetual poverty." From this it seemed that the "invisible hand," trusted by Adam Smith and his followers, had not manipulated as well as might be supposed.

This declaration set the statisticians going, and they have been going with a vengeance ever since. *Riches and Poverty*, published first in 1905, and revised in later years, put the whole question on a definite basis. The author argued that in 1904 the 43 million persons in the United Kingdom possessed an income of approximately £1710 million. The poor, men, women and children, consisted of 38 million persons. These were receiving a total income of £880 million, the equivalent to about 51 per cent. of the whole.

Next to them came a class of so-called comfortable persons. These, men, women and

children, comprised 3,750,000 heads. They were receiving a total income of £245 million.

Lastly came a class of rich persons. These, men, women and children, counted 1,250,000 heads. They were receiving £585 million.

Thus, in 1904, the rich and the comfortable, men, women and children, constituted a total of 5 million persons. They were enjoying £830 million of the national income, *i.e.* a little less than one-half of the whole. Meanwhile, the poor, men, women and children, consisting of 38 million persons, were in receipt of the other half, and a little over, of the national income.

The national income, at the end of the Victorian age, could thus roughly be split into two nearly equal halves. One-half of it, or thereabouts, was being taken by 5 million persons, and the other half of it, or thereabouts, was being taken by 38 million persons.¹

The matter could be put in another way, if you chose to concentrate attention upon the rich, instead of lumping rich and comfortable together. According to the figures above mentioned, the rich, all told, were about 3 per cent. of the population, and they were receiving about 33 per cent. of the national income.

The next estimate to be mentioned was made by Dr. Bowley in respect of 1913. The aggregate income of the nation was then, it seemed, £2,165 million. It could still be split into two

¹ Sir Leo Chiozza-Money, *Riches and Poverty*, 1905, and revised edition of 1910.

very nearly equal halves. Persons in receipt of over £160 per annum, which was the income-tax exemption limit, were receiving $47\frac{1}{2}$ per cent. of the national income. These, presumably, would be the rich and the comfortable. The persons with incomes or salaries under that limit were receiving $52\frac{1}{2}$ per cent.

The next estimate of importance was that of Dr. Bowley and Sir Josiah Stamp for 1924. They drew the dividing mark at wage-earners and persons with salaries or other incomes below £150 per annum, with those above that limit on the other side of the line. It would appear that 15 per cent. of the population were above the line, and the rest below.

Thus, whereas before the War about 12 per cent. of the population were drawing a little less than one-half of the national income, it would seem that much the same state of things prevailed after the War, when 15 per cent. of the population are drawing somewhat more than one-half of the national income.

From all of this it seems justifiable to infer that there has been a stability in the distribution, or the mal-distribution, of incomes in Great Britain. The proportion in which the national income has been shared between the three classes of the rich and the comfortable, on the one hand, and the poor, on the other, has remained undisturbed. Indeed, Dr. Bowley has observed that, amid all the fluctuations of the price level, first down and then up, between 1880 and 1913—

the price level ended in 1913 at much the same point as in 1880—the feature is that of constancy. “The constancy of so many of the proportions and ratios of movement found in the investigation seems to point to a fixed system of causation and has an appearance of inevitableness. The results of the system have not produced a satisfactory livelihood for the bulk of the population, and its working in the generation before the War afforded no promise of any rapid improvement. Indeed, in the early years of this century, real income increased little faster than the population.”¹

Surely, all this casts a strong light on the matter under discussion in this chapter. It is this inequality in the distribution of the incomes of the people of Great Britain to which we must attribute a distinct proportion of the feeling under review.

There is still another factor which may help to account for the issue, hitherto so active, between Capital and Labour. This is the unequal distribution, not of income, but of capital in this country.

It should be noticed that, even if the national income were fairly distributed in a great community as between the individuals composing it, that would not dispose of social and political dissatisfaction. For the individual incomes which make up the total may be derived either from the work of the persons receiving them, or

¹ *The National Income from 1880 to 1913.*

they may be derived from property and invested capital. They may be earned, or unearned. If, for the sake of argument, a portion of the people are living on incomes mainly derived from property, and another portion on incomes wholly or mainly derived from work, then, even though the incomes of that nation are statistically well apportioned, the resentment of the latter class against the former may evidently be aroused.

In Mulhall's *Dictionary of Statistics* for 1884, the United Kingdom figure is given as 21 per cent., as the ratio of the national income derived from property, to be distinguished from 79 per cent. derived from work.

This ratio has probably altered since those days. If the income per head during the earlier period of the twentieth century be taken at £50, and capital at £318 per head, then, assuming interest at 5 per cent., the income from property per head would be about £16. That is to say, the relative share of property to work, in supplying the total income of the country, would be about 32 per cent. before the War, a ratio probably not much disturbed by that event. Let us assume that the ratio is to-day 30 per cent. for property and 70 per cent. for work. A distinguished economist and statesman of our time has given it as his opinion that "satisfactory statistics are lacking, but we may perhaps assume as a rough average estimate that the

relative share of property is 30 per cent. in modern Commonwealths, and of work 70 per cent.”¹

But let us look at the distribution of property itself during the twentieth century, so as to see how it was divided both in the pre-war and in the post-war period.

During the first few years of the twentieth century the enactment of the Death Duties was already furnishing figures as to the property passing annually at death. On the average of the five years 1899 to 1904 about 714,000 persons were dying yearly. On drawing the line at the possession of £1,000, it seems that 680,000 persons were dying each year worth less than that sum. The remaining persons were each leaving more than that sum. The former class, *i.e.* the poor and very poor, were leaving, say, £30 million each year. The rich and very rich were leaving, say, £257 million annually. This exposes a great inequality in the possession of capital; 96 per cent. of the persons dying were leaving 12 per cent. of the capital passing, while about 4 per cent. of the people dying were leaving 88 per cent. of the capital passing.

Since that date we have had many more elaborate calculations furnished us on this point by highly qualified economists. But it is not necessary to reproduce these calculations in detail, for the reason that they appear to con-

¹ Dr. Hugh Dalton, M.P., *The Inequality of Incomes*, p. 42.

firm the figures given above for the early years of the century, and indicate that those ratios are not seriously altered to-day.

“Capital in this country,” writes Professor Henry Clay, at the close of his scientific analysis of the post-war distribution of capital, “is much more concentrated than income, and much more concentrated than it is in any other country. This concentration is connected with the fact that agriculture and other economic activities, in which small-scale enterprise predominates, are a smaller part of the country’s economic activity than they are anywhere else. . . . The wage-earning proletariat, which is much the largest economic class in the country, has little capital, although its standard of life is high compared with that of most Continental wage-earners and peasant proprietors. It has some accumulations of capital; these are mainly in the form of mutual insurance funds. If I were a capitalist, I should feel a little insecure about my capital, since a capital levy on all estates over one thousand pounds would leave 95 per cent. of the electorate untouched.”¹

It will be noted in the figures furnished above as to the distribution of capital in the early part of this century that the same dividing line of £1,000 was taken. Those earlier figures indicated that about 96 per cent. of persons were below, and about 4 per cent. above, that dividing line, in

¹ Professor Henry Clay, *The Problem of Industrial Relations*, 1929, pp. 303-4.

respect of the possession of property. Therefore, the capitalist, who must tremble to-day at the thought that a capital levy on all estates over £1,000 would leave 95 per cent. of the electorate untouched, must equally have been trembling then.

Excellent and valuable as are these calculations of our experts, we shall perhaps be disposed to realise, on a little closer scrutiny, that certain factors of uncertainty necessarily enter into them, and also that comparisons between pre-war and post-war conditions are full of pitfalls. Let us therefore found ourselves upon something more official and concrete.

The Board of Inland Revenue states that the number of individuals with £5,000 capital and upwards is about 500,000 persons. Also that the number of persons with £2,500 and upwards is about 900,000. And lastly, that the number of persons with £1,000 and upwards is about 1,500,000.¹ But let us look at the matter under review from the standpoint of those who possess £5,000.

These people who possess £5,000 are evidently in a position of well-being which is never attained by the great majority of citizens. The income derivable from a capital of £5,000, assuming the yield at $4\frac{1}{2}$ per cent., amounts to £225 per annum. This is in excess of any income ordinarily earned by the wage-earning population, who

¹ Report of the Committee on National Debt and Taxation, 1927, p. 251, para. 721, Cmd. 2800.

constitute the great majority of the population. This income of £225, derived from property, is not dependent, as is that of a worker, upon the life and health of the recipient. Its owner is "a man of independent means." The worker, who is earning all his income, is in the reverse situation.

Now, the Board of Trade states, as mentioned above, that about 500,000 persons only, out of our total population, are independent in this economic sense. Hence we may say that the ratio between 500,000 and the total number of our dependent workers constitutes the theoretic measure of the dissatisfaction of Labour against Capital.

It is remarkable that the great English classical Economists have generally stood aside, in the past, from engaging on this issue of the distribution of capital, no less than on that of the distribution of income.

Adam Smith, in his *Theory of Moral Sentiments*—for he was a moralist first and an economist afterwards—declared that "the rich are led by an invisible hand to make nearly the same distribution of life which would have been made had the earth been divided into equal portions among all its inhabitants. . . . When Providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seemed to have been left out in the partition."¹

One sees how different is the standpoint of

¹ Pp. 264-5.

Adam Smith, the founder, after Locke, of our English economic School, from that of Rousseau and Karl Marx. Even the omniscient pontiff, Bentham, repudiated equality. "Equality must be sacrificed," he said.

Ricardo, like Adam Smith, thought that society was naturally ordained into three classes of persons: the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourer by whose industry it is cultivated. In regard to this triple hierarchy, "the whole produce of the earth which will be allotted under the names of rent, of profit, and wages, will be essentially different."¹

John Stuart Mill wrote some very penetrating chapters on Distribution, and offered many remarkable solutions. But he had too many other economic fish to fry, so that his opinions as they advanced did not command much attention until about 1871. Marshall glanced at the problem and passed on.

This chapter has thus given proof, first, of the intensity of the stress which, in the past, has grown up between Capital and Labour; and next, it has assigned, as the substantial cause of that tension, the marked inequality of the distribution of wealth, in the shape of incomes, and, still more, in the shape of capital possessions.

¹ *Works*: McCulloch's edition, p. 5.

CHAPTER III

THE CAUSES OF STRIFE (*continued*)

THE last chapter was occupied with an endeavour to explain the growth, in the past, of the tension between Capital and Labour. The marked inequality prevalent in the distribution of our wealth was analysed and adduced as the main cause of it. But there has been another cause operative. This secondary cause is the inequality in the distribution of economic power.

As we study the works of that host of historians who have expounded by their learning and illuminated by their genius the political history of England, we must rise from that perusal with unfeigned satisfaction. Their research has been so wide and their philosophical method so profound that they may seem to have disentangled that sequence of events which, throughout twenty centuries, appeared before to be so erratic. Our history, it seems, is not a fluke, but a flow. There has been, apparently, from age to age a happy evolution of events, a Jubilee Procession of facts, according to plan. As we study them, the old details relative to the fate of dynasties, or to the matrimonies of monarchs, no more obsess us, so that the genealogical trees haunted of old by Clio, the Muse of History, can be lopped or cut.

What is more important, our historical teachers, besides irradiating our minds, have instructed our morals. According to the Master of Balliol College, "Hegel was the founder of the great historical method of the nineteenth century";¹ and, as we know, in Hegel's view, the State, in its historic evolution, is "the march of God on the earth," the concrete embodiment of moral ideals. Accordingly, these writers, in the strict spirit of their acknowledged master, have demonstrated not only how orderly in its structure, but also how moral in its progress, our national history has been.

In this account of things there is something imperturbably complacent. For instance, Julius Cæsar fortunately introduced us into the orbit of Imperial Rome, while the Anglo-Saxons, who came next, as fortunately took us out of it. These latter fortified us with their Germanic blood and ideals, while the Danes, the Picts and Scots, and the Norsemen, advantageously added their own. Providentially, however, at the Conquest the Normans reversed this process, and amended the Teutonic chaos, by the rigid discipline of feudalism. The Plantagenet princes, nevertheless, wisely granted us the boons of Magna Carta and of Parliament. Thus everything, according to the Hegelian doctrine, can, so far, be satisfactorily accounted for.

Next, the Hundred Years War with France, in its success, forged our martial virtues; in its

¹ Dr. A. D. Lindsay, *Karl Marx's Capital*, p. 19.

failure it enabled us to escape from foreign entanglements. The Wars of the Roses decimated the Barons, who had become impossible, and introduced the Tudors. The conjugal conceptions of Henry VIII were, indeed, in advance of his age. But if he had not held them, would he have broken the bonds of Rome, and should we have instituted the Church of England?

Queen Mary Tudor, by her Spanish proclivities, caused that patriotic reaction which Queen Elizabeth so magnificently utilised against the Armada. The policy of the Stuarts dispatched the Pilgrim Fathers to found America. Later, their far-reaching designs raised up in turn Oliver Cromwell and William of Orange to secure our liberties in Parliament and our independence of Louis XIV.

Our statesmen of this latter age have presided over the Industrial Revolution, which has made us rich, and have waged against Napoleon, the Czar Nicholas, and the Kaiser, those successful wars which have restored us to apostolical poverty.

So it would seem that, in our political history, whatever is, is best, and that freedom, in broadening down from precedent to precedent, has enjoyed a process of satisfactory subsidence. But, unfortunately, this theory, however applicable to politics, is not sound as an interpretation of our economic life. In the latter there has been no uniform set of current, but many shifting and even contradictory tides, an ebb and a flow:

a wayward fortune. By the sad sea waves of our economic history the Hegelian optimist wanders at fault.

This will become abundantly clear as we survey the distribution of economic power in this country. This survey is necessary because, otherwise, we cannot completely account for the historic tension between Capital and Labour.

First, then, how has economic power been allocated in our greatest and oldest industry, Agriculture?

During fourteen centuries we have pursued two alternate policies in regard to the land. The former of them may be termed the Anglo-Saxon, and the latter of them the Norman, policy. The former held the field during the first six of the centuries in question, and the latter during the remaining eight of those centuries, up till our own day. Judging each policy in turn from the particular standpoint of this chapter, it may be said that the Anglo-Saxon policy laid stress on a reasonable distribution of economic power between all parties to Agriculture, while the Norman policy was in that respect less wise. This mal-distribution helps to account, in its degree, for the tension between Capital and Labour.

It must not be supposed that the Anglo-Saxon policy, as we may term it, perished at the Conquest, and that it has thus no bearing on the sentiments and passions of to-day. Far from it. It was only submerged at the Conquest. It

is alive now. Conversely, the Norman policy is already observable even in the Dark Ages prior to the Conquest. It became definitely in the ascendant at the Conquest, and since then has reigned.

The agricultural system framed and followed by the Anglo-Saxons was hampered by many serious deficiencies. It produced a confused hierarchy of persons on the land: slaves the lowest, and, next above them, cottars, running up to villeins, and from them ascending up to socmen and freemen, all under the vague ægis of the Saxon overlord. Chaotic too were the land tenures—the demesne; the land held in villeinage; the common fields composed of strips, so that “a single farmer might have to cut his portion of grass from twenty different places”;¹ the common pastures, the forest and woodland subject to curious rights of ‘pannage’; the meadow lands and the closes. Thus, when the Normans came, “the complication of tenures, which had grown up under the English system, was almost as obscure to the new-comers as it is to ourselves.”²

A sufficiently bad system, one would suppose. The practice of holding land in strips was wasteful, unsystematic and in every way unfruitful, so that it is difficult to understand how a mediæval farmer could attend to his land with efficiency, when it was scattered over the whole village

¹ Gomme, *The Village Community*, p. 166.

² Professor Round, *Victoria County History, Essex*, Vol. I. p. 359.

area. This system of intermixed holdings and the practice of co-aration largely help to explain why mediæval husbandry remained so backward for centuries.

Nevertheless, in spite of all these grave drawbacks, the Anglo-Saxon system was redeemed by a merit of over-mastering importance. This system had its roots in the fundamental principle of mediæval life, the equality of the shareholders in the common fields. Intermixed ownership was devised in the interest of the community as a whole. If it sacrificed the individual, it was intended to promote fairness in the distribution of property. Everyone was given a share alike of soil, good or bad, far or near. "The method of allotment sprang from the determination that no one should benefit at his neighbour's expense . . . the real merit of the open-field system lay in the advantage afforded to the small farmer and the rural labourer . . . every labourer enjoyed an opportunity to occupy a few acres of land and so attain some degree of economic independence; every cottager could strive to improve his position, adding strip to strip as economy and thrift enlarged his scanty resources; while, above all, rights of common proved an invaluable provision for poor and struggling villagers."¹

Lord Ernle, writing of those village communities which at one time tilled two-thirds of the cul-

¹ E. Lipson, *The Economic History of England*, Vol. I, pp. 65, 68-9.

tivated soil of England, has remarked that in them "agriculture was organised on principles of graduated dependence and collective responsibility . . . it would be difficult to frame an organisation which, given the weakness of the law and the infancy of agriculture, was better calculated to effect the object of mutual help and protection." ¹

Into this heritage the Norman conquerors stepped, full of Roman ideas as to quite another distribution of economic power. These ideas were not merely backed by overwhelming strength, but were in accord with tendencies which, in the course of the Dark Ages prior to the Conquest, were modifying the balance of economic power. However that might be, the old irregular manorial life was now made uniform; a fixed organisation was evolved; labour services were defined and ordered. The villeinage was retained, and not only so, but, from above, the socmen and freemen were pressed down into it, while, from below, the slaves and the cottars were pressed up into it. Hence the villein was more than ever the typical villager, the representative countryman. But in status, in economic power, he was a sorely changed and fallen man.

There is no doubt that the substitution of Norman for Saxon rule told heavily upon the cultivators. For them the Norman settlement spoke disaster: the Conquest was a catastrophe.

¹ Lord Ernle, *English Farming Past and Present*, 1927 Edition, p. 3.

The Domesday villein was to all appearance in a far higher condition than the serf of the thirteenth century, who combined with his unfree tenure a considerable degree of personal servitude. Whatever view may be taken of the Norman Conquest, it undoubtedly affected adversely the economic position of the great mass of the nation.

The harsh truth was that the Norman lords with their arms, and the Norman lawyers with their axioms, so ordained and enforced it—keen swords backed by still sharper wits. *Nulle Terre sans seigneur*. The vague, immemorial, good-natured tenures of the Dark Ages yielded before the precise definitions and cold exactitudes of *De Legibus Angliæ*. Blazing barons and luminous lawyers dissipated the Anglo-Saxon night.

And then, in the fourteenth century, the solid manorial structure began to crack and go. After three centuries of life the Norman arch was yielding under the weight of its own tyranny. Historians tell us unanimously of the break-up of the manor. But, really, this was so only in appearance. The Norman arch shifted and settled. There was readjustment, not ruin, for it.

The manorial system was readjusted in virtue of a new conception which, entering into the minds and animating the breasts of the manorial lords, moved them to adopt an amended policy. Manorial farming did not pay; there was no money in it. Would it not be much better and more lucrative to make more businesslike arrange-

ments with the stronger and more capable villeins? These latter would henceforth be, as it were, tenants, who should pay money rents to the lord, in lieu of services. This would have the double advantage that the latter would obtain cash, and would be quit, at the same time, of the trouble, growing greater and greater, of wringing forced labour from a reluctant villeinage. Their cares would be less: their cash would be more.

On their side, the major villeins warmly welcomed the idea. Up till now their labour had gone partly to work their lands in occupation, and partly to work for their lord compulsorily and gratuitously at certain times and seasons. Henceforth this would cease: all their time could be given to their own holdings, and their former free services to their lord would be exchanged, or commuted, for payments in rent. Thus the stronger villeins and the still stronger lord would alike be suited by so agreeable a compromise.

We touch here upon a transaction which has lasted continuously for some five centuries. Who has not witnessed in our country life that close and intimate association of the tenant farmers with the landlords which has never been dissolved? A distribution of economic power, eminently satisfactory to the parties concerned, had been negotiated. The manorial system was only altered, and not abolished.

But all this only accounts for the history of the upper crust, a fraction, of the villeinage. The

middling villeinage evolved into that famous yeomanry of England, of which history tells much, and romance more.

We may perhaps hazard a guess that our mediæval Monarchs, being often hard pressed by the Baronage, were not disinclined to cultivate on the soil of England a class of men who, despite the sub-infeudations of the feudal system, should be their own men direct. Hence, perhaps, the provisions of the famous statute, *Quia Emptores*. At any rate, we find long after that it was an essential aim of Tudor policy to foster the prosperity of the yeomanry. In the eyes of those Princes the yeomen were the 'body and the stay' of the kingdom, not to mention that they were good for a little judicious taxation. As Bacon said, with his matchless brevity, "the more gentlemen, ever the lower books of subsidies." ¹

The manorial lords themselves, now that money payments were coming into vogue, were not unwilling for a deal in these hard times, and were prepared to accept ready money if a yeoman wanted a piece of land, however much such transactions might invalidate the manorial structure. Thus we can observe the rise, even from their early beginnings at the close of the twelfth century, of a new class of small-holders and freeholders, who, with an admixture of smaller tenantry, made up what was known as the yeomanry. ²

¹ *The Works of Bacon*, Vol. VI, p. 94.

² Stubbs, *Constitutional History of England*, Vol. III, chap. xxi., p. 552.

This process was fortuitously assisted by the Black Death, which, arriving from Asia in 1348 and 1349, destroyed, it is supposed, upwards of half our agricultural population. In the language of a chronicler of those days, "the fell mortality came upon them, and the sudden and awful cruelty of death winnowed them."¹ There was thus much more land suddenly made available for any would-be yeoman than could possibly be wanted by the lords for cultivation by themselves.

Politically, the result was that in 1430 was passed that famous Act which conferred the country franchise on every 'forty-shilling freeholder.' Economically, it seemed likely in the fifteenth century that the yeoman would acquire predominance on the land, and that England, abandoning the manorial system altogether, would happily become a land of small holders as is France to-day. There was a breath and stir of Anglo-Saxonism in the agricultural air.

These hopes did not come to fruition in Tudor times, owing, no doubt, largely to the fact that sheep-farming became all the rage. Nevertheless, an Elizabethan author in his *Description of England* could say of the yeoman, "This sort of people have a certain pre-eminence . . . and these commonly live wealthily. . . . These were they that in time past made all France afraid. And albeit they be not called 'master,' as gentlemen are, or 'Sir,' as to knights appertaineth—but

¹ *Chronicle of Henry of Knighton*, Vol. II, p. 61.

only 'John' and 'Thomas'—yet have they been found to have done very good service. The Kings of England in foughten fields were wont to remain among them, who were their footmen, as the French kings did amongst their horsemen, the Prince thereof showing where his chief strength did consist."¹ What a moment of pride for the gallant yeomen when, on a "foughten" field, the King of England himself left the saddle to take post among their ranks!

In the Civil Wars of the seventeenth century, we all know the part played by the yeomen on many a 'foughten' field. At the close of that century it was well written that "of the freeholders of England, these are more in number and richer than in any country of like extent in Europe."²

And then, after five centuries of existence, at the end of the eighteenth century the yeomen vanished, swallowed up by some quick catastrophe or wasted by some cruel economic disease. In 1773 Arthur Young finds them gone! He "sincerely regrets the loss of that set of men who are called yeomen," and is "loth to see their lands now in the hands of monopolising lords."³ Later, in 1787, he again deplores that they had disappeared.

The finishing stroke in this process of swift

¹ Harrison, *Description of England*, Edition of 1577, Book III, chap. iv, p. 13.

² Chamberlayne, *State of Great Britain*, Edition of 1737, Part I, Book III, p. 176.

³ *Inquiry into the Present Price of Provisions and the size of Farms*, 1773, pp. 1-6, 139, etc.

decay was administered by the great fall of prices after 1815, following on the inflation of previous years. "As their small properties came into the market and no holders of their own class appeared to take their place, their lands went to swell the large farms that were now the typical feature of British agriculture."¹

Such is the sad story of the yeomanry of England, from glory to the grave. The Norman policy and the Anglo-Saxon policy, as we have termed them, had met in the lists, and the former had won. 'Merrie England' had gone down for ever before rural 'Mercantilism.' Those "who fought with us upon St. Crispin's Day"—where are they? The warriors, whom we were bidden by Shakespeare that they should be "freshly remembered" for ever, were of such stuff as dreams are made of, after all.

At last our own age felt some twinges of remorse. With the purpose of re-establishing the vanished ancestral yeomanry, two futile little Acts were placed on the Statute Book in 1892 and 1894. In our more lavish twentieth century two other similar statutes were enacted in 1908 and 1919, with large funds to back them. To no effect. For, though 30,000 small-holdings were created, and though the State, which had guaranteed the loss to the County Councils, paid up £550 per person, yet, in spite of this costly outlay, other small-holders were simul-

¹ Gibbins, *Industry in England*, p. 279.

taneously quitting the land, thus producing a net decline in the number of small-holdings.¹

So far, we have only shown how the upper and the middling villeinage developed into that tenantry which has lived and that yeomanry which has perished. There remains to be accounted for the lower villeinage. These were gradually transmuted into the agricultural labourers of to-day. Of this class it may be said that it has neither exactly lived nor has exactly perished. It has been too poor to live, and just too necessary to be allowed to die.

Agricultural labourers, as we know that class, did not exist mediævally: as their learned historian tells us, "agricultural labourers in the modern sense were non-existent."² The smaller villeins were unfree, and therefore lower in status than our labourers, but, on the other hand, before the days of enclosures they enjoyed the use of a certain portion of land, together with certain rights in the woodlands, the wastes, and the pastures. Mediævally they were worse off than they had been in the Dark Ages, but they had some rags of rights left upon them, and also, as we have said above, certain rights of property.

A gleam of relative good fortune was now to irradiate the lot of the lower villeinage. By a supreme stroke of economic irony, the Black

¹ Second Report from the Select Committee on Estimates, Ministry of Agriculture, 1925.

² Dr. Hasbach, *A History of the English Agricultural Labourer*, 1920, p. 10.

Death, in killing off about half of them, immensely improved the position of the survivors. This, arguably, was the happiest thing that has occurred in the history of the peasantry of England. If they could all have perished, they would perhaps have been still more fortunate.

For the lower villeinage these better years did not last very long. The Tudor time came. "From this time forward we shall not find much advance in the lot of the labourer. One of his most prosperous periods was fast approaching its close, and, on the whole, the next two centuries show a steady deterioration."¹ As a matter of fact, the lot of the labourer during the sixteenth century, owing to the break-up of the monasteries and the extension of sheep-runs at the expense of arable, was one of intense discomfort and misery.

An important factor in this decay of the lower villeinage into the agricultural labourer of modern times, was the enclosure of the common lands. As the learning of our time has demonstrated, the progress of enclosure spreads over five centuries of our history, from the fifteenth to the nineteenth, but it was most rapid and intense from 1470 to 1530, and from 1760 to 1830.²

A vast controversy has long raged as to the merits, or otherwise, of enclosures. Between

¹ Gibbins, *Industry in England*, 7th Edition, 1912, p. 252.

² Professor Ashley, *Economic History of England*, Vol. II, Book II, p. 286.

the combatants we may perhaps conclude that enclosures were excellent—for those who got them—and that enclosures were disadvantageous—for those who were now deprived of them. It was a Norman victory.

The final result of all this must be studied in a stupendous literature, or, much better still, on the spot. Yet it is perhaps enough for us that, after over four hundred pages of his great work on *English Farming Past and Present*, Lord Ernle devotes a few remarks to the score of the agricultural labourer. "Under the older system, peasants were rarely without some real stake in the rural community . . . they were not exclusively dependent on competitive wages for their homes and livelihood . . . they had not before them the unending vista of a gradual process of physical exhaustion in another's service . . . they have no property but their labour . . . even of that one possession, such are the exigencies of their position, they are not the masters . . . their home is only secure to them from week to week." ¹

The increasing decay and demoralisation of this class were revealed at the close of the nineteenth century by the Royal Commission on Labour in 1893. At that date, it seemed, wages in the Midlands ranged about 10s. to 12s. a week, while the whole average of England and Wales was between 13s. and 14s. a week.

The net outcome of the mighty movements

¹ Edition of 1927, p. 411.

enumerated above was that, in modern times, the distribution of economic power arising out of the land has been unequal. The so-called new Domesday of 1873, making a return of land-owners, was admittedly very imperfect; but it was re-studied and corrected as for the year 1883.¹ The result of that revision appeared to be that, out of the 34,500,000 acres of England and Wales, as many as 27,500,000 acres, or about three-quarters of the whole, were in the hands of only 38,200 persons. In the twentieth century, prior to the War, it is probable that the facts were not materially different. There had occurred in the interval an increase in the number of proprietors of small plots of ground, but the major holdings were, as a whole, probably not much altered in extent.

Our agricultural structure, as it presented itself at the Norman Conquest, had already enjoyed a long, but obscure, evolution. One of the keenest of learned controversies has been fought round those origins. In the eyes of some scholars, the Anglo-Saxon system had progressed from the sheer slavery of the Roman Vill up to a relative freedom: in the eyes of the opposite school, the Anglo-Saxon system had experienced a slow decline from the primeval freedom of Teutonism.

Thus our agricultural system, as it appears at the Conquest, was the outcome either of a slow progression towards, or of a slow recession from, freedom. However that may be, there was still

¹ John Bateman, *Great Landowners*.

alive in it, though marred by grave defects, a genuine principle of a fair distribution of economic power.

On this basis the Normans erected the manorial system proper, with its principle of the concentration of economic power. The Norman arch was shaken in the fourteenth century. It seemed, but only seemed, to be broken. True that, technically, the villeins vanished. But they reappeared in due course in the triple shape of tenant farmers, of yeomen, and of labourers.

Of these three classes the yeomanry, who lasted for some five centuries, were a body inconsistent with the manorial hypothesis. So, ultimately, they were reabsorbed into that Romanised organisation from which they had sprung. And thus there was left on the land of England, on the one hand, the landlord with his friend and ally, the farmer, in relative prosperity, and, on the other, the agricultural labourer, the mediæval serf under another name.

It is well-nigh twenty centuries since Cæsar came and saw and conquered us. Here, in the topmost bough of their dominion, his Roman eagles built their nest. And then, in due season, they flew away.

How strange, then, that, after so many centuries, we should still be feeling the grip of—Rome !

CHAPTER IV

THE CAUSES OF STRIFE (*continued*)

THE last two chapters have been occupied with an attempt to account for the existing tension between Capital and Labour. It was indicated that this is due mainly to the unequal distribution of wealth, whether in the form of capital or of income, and that the subordinate cause of it is the unequal distribution of economic power. This latter inequality was explained in the last chapter, but only so far as the land was concerned, so that Industry proper, as distinguished from Agriculture, was not alluded to.

It remains, therefore, to deal in this chapter with the unequal distribution of economic power in Industry.

That this constitutes to-day an active, if subordinate, source of discontent, may readily be perceived if we study, among a countless cloud of other witnesses, the official programme, already referred to, of the Labour Party, entitled *Labour and the Nation*. In that document strong emphasis is laid upon the precise point now in question. The public is summoned to a systematic and unflagging effort "to end the capitalist dictatorship, in

which democracy finds everywhere its most insidious and relentless foe."

The contention is that, constitutionally and organically, Labour is subordinate to Capital, and that our prosperity is greatly impaired by "the despotism of the capitalist," not less than by his "gross and scandalous inefficiency." In these circumstances it is indispensable "to secure for the nation the control of its economic destinies."¹

These views are likewise very forcibly expressed in the work on Socialism already cited. The author regards "the system of capitalist dominance" as "a menace of ever-growing potentiality." As for the capitalist *quâ* financier, he exclaims, "I object to his power. No community can be free until it controls its financial organisation."

The remedy, by the way, for ending this state of things is to be "the deliberate organisation of the resources of the whole community in the service of all." There is to be created "a new spirit of service," inspired by which everyone will work for the good of the community, thus harmonising the existing antagonisms. Work henceforth is to be "a social function," instead of a matter of private gain and profit. Hereby the present inequalities of pelf and power will be flattened out.²

All this illustrates how much the distribution of economic power in Industry is at any rate a

¹ *Op. cit.*, pp. 148 and 231. ² *Op. cit.*, pp. 51, 148, 305-7.

partial cause of the serious dissatisfaction which we are seeking to diagnose. What, then, has been, and what is, the nature of that distribution ?

As the Dark Ages ended and the Middle Ages began, this country was, of course, almost wholly agricultural; and it was from agriculture that British Industry very gradually emerged. That is to say, industry was at first only a by-product of the rural population. Both the work of providing for man's utilities or superfluities, which is the specific task of Industry, as well as the work of providing for man's necessities, which is the specific task of Agriculture, were alike undertaken originally in the homes of the rural population. At this stage, those who made, did not sell: they worked only for their own domestic consumption. There was no need of capital.

Out of this primeval condition of affairs arose the second phase of our industrial history. Industrial output had hitherto been the by-product of the agricultural population, but now a body of men arose with whom it was not a by-product, but the main business of their lives. In other words, during the three centuries from the twelfth to the fifteenth, the incipient industrial life of England was carried on mainly in the towns, now in process of formation, by small masters employing a few men each. These people gradually organised a particular institution, the Gild, to which, as time went on, practically everyone of all these small workers belonged,

The fundamental principle of these Gilds, or "misteries," was that every member should work not merely for his own private advantage, but "for the honour of the good folks of such misteries."¹ Bad work was punished; hours were regulated; young people were carefully trained up for the future; moral behaviour was inculcated: in the words of one Gild, "over-hasty marriages and over-soon setting up of households" were frowned upon²; sickness and death were carefully provided for; chapels, hospitals, schools, kitchens, and almshouses were instituted for the souls and bodies of all; a Gild founded a College, Corpus Christi, Cambridge. With these characteristics, "the Gild became the universal form of association."³

These Gilds had their merits and their strength, evidently; they had also their demerits and their weaknesses. They were localised in the petty towns of the day, each of which had not merely its own industries, but the same industries as every other town. Added to this, "a jealous and rigid commercial monopoly isolated every locality from its neighbours, and sought to set up an impenetrable barrier of protective tariffs and stringent regulations."⁴ And then a mighty force, which the Middle Ages had not known hitherto in its extension, stepped

¹ Royal Order of Edward III, quoted by Bain, *Merchant and Craft Guilds*, p. 4.

² J. Nicholl, *History of Ironmonger's Company*, 1866, p. 73.

³ Professor Ashley, *Economic History of England*, Part III, Book II, p. 75.

⁴ E. Lipson, *Economic History of England*, Vol. I, p. 239.

into the arena, and pushed them, as well as much else, aside.

This was that force which is called Capitalism.

Or, as the economic historian of that age excellently puts it, "the old system was broken down in large measure by the sheer force of individual self-interest . . . that remarkable outburst of the spirit of self-seeking in the sixteenth century, which was so much more intense and widely prevalent than before that it strikes us almost as the manifestation of a new economic force." ¹

The fact is that we can discern in the fourteenth and fifteenth centuries the incipient formation of Capitalism, and that the process went on with marked rapidity in the sixteenth. This formation of capital was due to the industrial energy of individuals operating in three directions in rupture of the Gild system.

From the days of Edward III a great industry, the cloth industry, had sprung up, the growth of which, in direct contrast to the Gild organisation, was one of the most striking phenomena of the Middle Ages. It exhibited almost every characteristic of the modern capitalist system. England was so enriched by it that, if you had walked down the Strand at the end of the fifteenth century, you would have seen, as the Venetian ambassador of the time tells us, greater wealth "than in all the shops in Milan, Rome,

¹ Professor Ashley, *op. cit.*, p. 51.

Venice, and Florence put together.”¹ The magnificent edifices built by the wealthy clothiers of that age tell the tale.

Thus the great commercial and industrial organisation of the mediæval cloth trade struck right across the restrictions of the old Gild system. This latter broke down earlier in the weaving industry than in any other direction, and in the sixteenth century the woollen industry came to be concentrated largely in the hands of the capitalist manufacturers.

The second organisation in which individual enterprise and Capitalism began to express themselves was that of the Merchant Adventurers.

It must be remembered that, during a considerable portion of the Middle Ages, our connections with the Continent were relatively more important than they are to-day. Our Lancashire and Yorkshire were situated in Flanders; for Flanders, in the early Middle Ages, was the factory of Europe, until its industry was undermined by our cloth industry and until it was destroyed by Spain in the sixteenth century. In France we had important possessions. The Hanse Merchants had their establishments here in Bishopsgate, which they undertook to maintain in good order. The chief depot of our trade, the Staple, was not in London at all, but abroad, and was finally fixed at Calais. “The fixing of the Staple at Calais

¹ *Italian Relation of England*, p. 47.

was a landmark in English economic history; for two centuries it remained the chief centre of our overseas trade.”¹ During a considerable portion of the Middle Ages “the control of English commerce was largely in the hands of foreign merchants.”² Indeed, as Bacon points out in his *Life of Henry VII*, “almost all the ancient statutes invite, by all means, merchant strangers to bring in all sorts of commodities.”³

All this lucrative business was, however, gradually annexed by the Merchant Adventurers. They had been growing in importance from the early days of the Middle Ages, and had become in the time of Henry VII a wealthy body of trading capitalists. Their secretary and historian, who flourished in the days of Elizabeth, informs us that, as a result of the Charter of 1505, they “flourished in great prosperity and wealth, and out of it have sprung almost all the principal merchants of this realm.” In fact, at the end of the sixteenth century, the Company comprised some 3,500 persons of wealth and weight.

And thirdly, the same expansive ferment which, outside the city walls, had created large-scale industry with the clothiers, and commerce with the Merchant Adventurers, thus luring men away from the old stereotyped life, now penetrated so far as to dissolve it within the city precincts themselves.

¹ E. Lipson, *op. cit.*, p. 483.

² *Ibid.*, p. 448.

³ Works of Bacon, Vol. VI, p. 96.

The more energetic men of the towns presently found, in spite of all their local prejudices, that it was not to their interest for their towns to remain isolated from each other. And thus, as time went on, and the Middle Ages ended, a whole host of inter-municipal treaties covered the face of the land, denoting in themselves an increasing business inter-connection, of which the energetic trader takes advantage to make his pile. Besides this, some towns find themselves to be better suited for some industries than others, thus instituting a differentiation of industries which itself affords occasion for individual fortunes.

And then, too, just outside the town walls, we can remark an intensely active life of business throbbing in those great mediæval fairs and markets, wherein a life of exchange, regulated by the Law Merchant, gives scope to incipient Capitalism. Against the jealous isolation of the municipalities runs the current of free exchange in the fairs and markets. In the *Institutes* of Coke, and also in the *Commentaries* of Blackstone, we can see that all this active movement was the highly valued prerogative of the central authority of the nation, actively fostered by it for its own ends.¹

Thus was it that the old Gild system broke up, in spite of, or perhaps because of, its effort to secure an equal distribution of economic

¹ E. Coke, *Second Part of Institutes*, 1671, p. 220; W. Blackstone, *Commentaries*, 4th Edition, 1876, Vol. I, p. 245.

power. And with it went that old industrial municipal life in which had been forged the forces of industrial England. At any rate, "in the sixteenth century the mediæval town life gave way in every direction . . . town life never altogether decayed; it remained a considerable element in the life of the nation as a whole. But it became a subordinate element and one continually growing weaker."¹ We may verify this latter limitation by recalling those remarkable pages in which Adam Smith demonstrated how strong the restrictive power of the Gild system still was in his day at the end of the eighteenth century, and how injurious its character was then proving to the march of industrial progress.

Out of the broken shell of the old Gild system stepped that individual whom we know as the British Working Man. The working man, as such, had not hitherto existed. At any rate, he had been cabined, cribbed and confined inside the Gild. Now he emerged into the daintier, but more dangerous, air of freedom. Unfortunately, in the long event he had to encounter economic forces, national and international, with which he could not now reckon, and of which it was impossible that he should even dream.

In throwing aside his Gild, the shield of mediævalism, the working man exposed himself to the shell fire of modernity.

¹ Professor Ashley, *op. cit.*, pp. 42-44.

“ Ill fared it then with Roderick Dhu,
That on the field his targe he threw,
Whose brazen studs and tough bull hide
Had Death so often turned aside.
For, trained abroad his arms to wield,
FitzJames’s blade was sword and shield.”

As the Gild era thus slowly dissolved after full three hundred years of ascendancy, the era of Capital succeeded it. This third industrial era has lasted for four centuries, from the sixteenth century until to-day.

This era of Capitalism may be divided into two subsidiary epochs: that of the outwork or “domestic” system, and that of the factory. The first of these subsidiary epochs may be reckoned to have lasted from the sixteenth century up to the close of the eighteenth. The second has lasted from the latter date until to-day. Let us consider the distribution of economic power, first, under the outwork or “domestic” system, which historically superseded that of the Gilds.

As the working man in the sixteenth century stepped out of his decaying Gild and passed through the gates of his declining town, he carried his fortunes into the country districts. For instance, the preamble of a Statute of Mary Tudor, which is much concerned to stop this process, acquaints us that, in regard to the principal industry of England, “divers years past such persons as do use the feat and mistery of cloth making . . . do daily plant themselves in villages and towns . . . and draw with them

out of cities all sorts of artificers.”¹ This illustrates a general process which was then going on. How, during the next two centuries, up to, say, 1760, did industry thus transported fare in the country districts?

Capital, as it were, met the working man half-way. “The exclusive power of the Gilds had driven enterprising capitalists to turn to the possibilities of the country districts, where the power of the Gild ordinances did not extend. Thus all East Anglia became covered with little manufacturing villages . . . the London suburbs grew in the same way. Craftsmen, wishing to set up without the heavy expenses attaching to Gild membership, removed themselves across the water to Southwark or Bermondsey. The City Fathers tried to get control of the suburban workers, but the capitalist interest was too strong for them.”²

It is of high interest to observe how the economic structure, thus incipient in the sixteenth century, stood two centuries later, say, in 1760. The excellent author of *The Industrial Revolution*, writing of 1760, says: “A large part of our goods were still produced on the domestic system. Manufactures were little concentrated in towns, and only partially separated from agriculture. The ‘manufacturer’ was, literally, the man who worked with his own hands in his own cottage. Nearly the whole

¹ Statutes, Vol. IV, Part I, p. 325.

² C. M. Waters, *An Economic History of England*, 1925, pp. 196-7.

cloth trade of the West Riding, for instance, was organised on this system. . . . An important feature in the industrial organisation of the time was the existence of a number of small master-manufacturers who were entirely independent.”¹

“What I mean,” said a witness before a Parliamentary inquiry at the opening of the nineteenth century, “by the domestic system is the little clothier living in villages or detached places, carrying on business with his own capital. Everyone must have some capital, more or less, to carry on his trade.”²

The economic historian of modern Britain points out in his recent encyclopædic work that the mediæval Gilds forbade outwork, because inequality would at once arise. For the master with most character and skill would outstrip his fellows by drawing into his own service a disproportionate share of the available labour. “The Gilds believed in equality of opportunity for masters. In the long run the Gilds failed, and outwork became the predominant, though never the sole, form of capitalistic industrial organisation in Britain. Probably it was still the predominant form in the reign of George IV. For, though it was losing ground on one side to great works and factories, it was always gaining ground on the other at the expense of household production and handicraft.”³

It should be noticed that some of the above

¹ Toynbee, *The Industrial Revolution*, p. 29. ² *Ibid.*, p. 196.

³ Professor J. H. Clapham, *An Economic History of Modern Britain, The Early Railway Age*, pp. 178-9.

statements do not give the case quite fully. We must not suppose that during those generations individual workmen were "on their own" in industry. As Adam Smith, writing in 1766, points out, in every part of Europe twenty workmen were working under one master, for one that was independent. And next, when we ascend from the individual worker to his petty employer, let us realise that the latter was not really "entirely independent," in the economic sense. For he was already a link in a long chain of the merchants supplying raw material and the merchants who would market his finished article.

Subject to these considerations, we may say that in this "domestic" epoch there was a reasonable distribution of economic power throughout industry.

Added to this, the smaller industrial units enjoyed another source of economic strength. They were in the country. They had originally come there at a time in the sixteenth century when sheep runs and pasture were all the rage. The land into which they had stepped had thus been relatively empty, and owing to the recent break-up of the monastic system, they had encountered a disorganised countryside. They had occupied it, and, during the succeeding centuries, had mingled a little agriculture with a little industry. Thus they had now two strings to their industrial bow. Such was the good side of the domestic system of outwork.

But this system had also its weakness. Industry was not adequate to its task. The balance of industrial power was tilted somewhat far in favour of the smaller unit. Capitalism had too little say in the matter to be able to justify itself fully. During those centuries since the sixteenth our industries were feeble or reactionary; although in commerce and finance, thanks to our overseas connections, we were making good progress.

But in industry proper pauperism showed its face throughout that period, and there were the incipient conflicts that must inevitably arise from that fact. Adam Smith, in *The Wealth of Nations*—that work which affords such a full description of contemporary England—makes only one casual reference to such an unimportant thing as the Cotton industry. The Iron industry was in decay. That industrial life should flourish actively was, indeed, rendered impossible by the deterioration of the roads, a sure proof of a feeble economy. For the roads had fallen away since the Middle Ages, as we may read in Arthur Young. Adam Smith declares that, during the three preceding centuries since the time of Edward IV, only three inventions of any consequence at all had been made in the clothing trade, which was still the only important industry in England.

In a word, during this “domestic” portion of the era of capitalism—that is to say, for full two centuries—there was a distribution of economic

power in industry which was not unsatisfactory. The Gild system, which had preceded it, had aimed higher and had succeeded better in this respect. That was because, the seat of the Gilds being located in the towns, it was clearly possible for those workers to secure an equitable distribution of economic power much more easily than could the workers in the "domestic" system. These latter, though more numerous in the three industrial centres of those days—the Eastern Counties, the West of England, and the West Riding of Yorkshire—were, nevertheless, not closely congregated even in those areas, and otherwise were dispersed generally throughout the land. They had not, therefore, any capacity to construct an organisation corresponding to the Gilds of the Middle Ages, and were thus debarred to that extent from economic power.

But, on the other hand, we must remember that "the domestic system, as it was commonly called, retained in many, if not in most, places the distinctive feature that the manufacturing industry was not the only industry in which the artisan was engaged, but that he generally combined with it a certain amount of agricultural work in the cultivation of his own small plot of land."¹ Thus the working man in the "domestic" epoch regained on the land that economic power which he had lost in abandoning his Gild in the town.

¹ Gibbins, *Industry in England*, 7th Edition, pp. 336-7.

This and the preceding chapter have been occupied with the distribution of economic power, first, in Agriculture, and, next, in Industry up to the Industrial Revolution. But Agriculture is itself only a branch of Industry, and so, in summarising the conclusions so far arrived at, it is advisable to treat them together. And next, it must further be remembered that, although in the case both of Agriculture and of Industry, their economic history has been analysed into successive epochs, too much stress must not be laid upon such distinctions. These epochs are, indeed, not arbitrary creations of the mind : they have actually succeeded each other ; but we must not visualise them as more distinct from each other than they really were. There is a continuous flow, an unbroken current, as one epoch slides indeterminately into another metamorphosis, which must for ever defy the mind.

And besides this, the great economic transformations do not so much succeed each other in order of time as supersede each other in order of strength. Thus when we declare that there was a primeval stage in our Industry, and undertake to define it as it existed before the Conquest, we must not fail to remember that in many of its essentials it still exists to-day. When we declare that the " domestic " system was followed by the " factory " system, we must not omit to notice that the former is operative still, though of subordinate importance in that

field where once it was supreme. And conversely, it is to be understood that the factory system, for instance, existed in some modest degree before that Industrial Revolution which is supposed to have created it.

If, armed with these precautions, we summarise in one whole the conclusions of this, and the previous, chapter, we shall remark that, when the distribution of economic power is first observable, ere Agriculture was differentiated from Industry, it was concentrated in relatively few hands. The Dark Ages ended and the Conqueror came. Thenceforward we observe a parallel movement in Industry and Agriculture. In Agriculture, after an initial intensification of authority under the manorial system of the Normans, a reasonable equilibrium of economic power bids fair to assert itself, as embodied in the famous Yeomanry of England up to the end of the eighteenth century. Similarly, in Industry, first the Gild, and then the "domestic," system provided a reasonable distribution of economic power during the same epoch of about five centuries.

And then, as the eighteenth century terminates, Capitalism, which has been gathering strength since the close of the Middle Ages, asserts itself more emphatically. The "domestic" system and the Yeomanry, the symbols in Agriculture and in Industry of economic equilibrium, are submerged in the tidal current of a new order. Disequilibrium appears.

CHAPTER V

THE CAUSES OF STRIFE (*continued*)

IN this chapter the point is reached for investigating the distribution of economic power during the period of a century and a half, or thereabouts, extending from the Industrial Revolution up to our own day. This is necessary because, until that is done, a complete explanation cannot be furnished of that animus between Capital and Labour which it concerns us to analyse.

In their recent work entitled *The Decay of Capitalist Civilisation*, Sidney and Beatrice Webb, the authors, undertake to define Capitalism. Their definition is as follows:—"By the term Capitalism, or the capitalist system, or, as we prefer, the capitalist civilisation, we mean the particular stage in the development of industry and legal institutions in which the bulk of the workers find themselves divorced from the ownership of the means of production, in such a way as to pass into the position of wage-earners, whose substance, security and personal freedom seem dependent on the will of a relatively small proportion of the nation; namely, those who own, and through their leadership control, the organisation of the land, the machinery and the

labour force of the community, and do so with the object of making for themselves individual and private gains."

There are, the authors proceed to say, four main counts against the capitalist system. The first is that, owing to Capitalism, "the bulk of the people lives in penury, and large numbers of them are threatened by starvation." Next, all this is rendered "more hideous and humiliating by the relative comfort and luxury of the proprietary class and by the shameless idleness of some of its members." Thirdly, there is "the glaring inequality in personal freedom," which it establishes. For, hour by hour, "the two-thirds of the nation who depend for their daily or weekly housekeeping" on the favoured few are imperilled by this "wage-slavery." And fourthly, the very basis of it is "fundamentally inconsistent with the spiritual advancement of the race." In fact, Capital has destroyed "the soul of the people."

Such are "the appalling results of Capitalism." They are, however, not deliberately planned. "They are, in fact, too bad to have been intentionally brought about by human beings at any stage of civilisation." Nevertheless, they are "still in the doing."¹

For my own part, I would prefer to define Capitalism simply as the application of savings to large-scale industry; and to say that this process has resulted in some evil and in more

¹ *Op. cit.*, p. 5 *et seq.*

good. Hence has arisen some ill-th and more wealth, wealth not only in the narrow economic sense, but also in that wider and better sense of Ruskin : " There is no wealth but Life."

In order to appreciate exactly the function of Capitalism, let us begin by inquiring as to its part in the Industrial Revolution. This economic change originated with that extraordinary series of inventors, the great majority of whom were poor or uneducated men. Thus Hargreaves was a working weaver, illiterate and possessed of no capital. Arkwright began as a travelling barber. Crompton was also a poor working weaver. Cartwright was a clergyman and a scholar living in poverty. The first three of these men, in virtue of their inventions, superseded the old hand-spinners. The fourth of them similarly abolished the old hand-weavers. Thus was doomed to destruction our ancient industrial England.

And finally, it was James Watt who administered the death-blow to that structure. In 1769, the year in which Wellington and Bonaparte were born, Watt took out his patent for the steam engine, which in 1785 was widely introduced into factories. No other invention since printing had so widely or powerfully affected the interests of mankind.

If, therefore, we are to be accurate, we must realise that it is a set of humble men without capital who initiated the Industrial Revolution. The capitalists were those who commercialised

those inventions by the agency of savings which had been slowly accumulating for generations past.

The work of Capitalism since that date can perhaps most fairly be stated as follows.

According to Sir Josiah Stamp, armed with all the weapons of modern research, and generally acknowledged to be a reliable investigator, the income of the country increased approximately ten times between the years 1800 and 1914. In this connection we must realise that, during that same period, the purchasing power of money almost doubled. On this basis, it follows that, if our population increased about five times and our nominal income ten times, then the country as a whole was, in the result, about four times better off in 1914 than it was in 1800. This ratio stands to-day.

But it may be said, and, as we have seen, it is said, that this wealth has been accumulated at the expense of the prosperity and happiness of the general public. Before accepting this position, let us scrutinise that extraordinary phenomenon, the expansion of our population from the days of the Industrial Revolution. That scrutiny, if impartially conducted, should afford us valuable guidance here.

From the date of the Industrial Revolution a world-wide movement of population arose and spread among mankind. Philoprogenitive man doubled his numbers during the nineteenth century, expanding to more than 1,700 million

persons. Add to this that during the twentieth century prior to the War the population of the world was increasing at such a rate as to double itself in another sixty years. It is 2,000 million to-day. But what happened simultaneously in this country?

During the seven centuries subsequent to the Norman Conquest the population of England and Wales advanced very slowly. In 1750 our numbers were probably about 6 million. Then a rise began, carrying our population to considerably over 8 million in 1800. Thenceforward we registered a growth altogether remarkable or unique. From 1800 up to our own time our population has multiplied not far from five times, and our density of persons per square mile has risen correspondingly up to no less than 650.

Modern science has devoted the most careful scrutiny to the causes of this stupendous multiplication, which started from modest beginnings in the latter half of the eighteenth century. The problem remains incapable of too exact calculation, because the civil registration of births was not established until 1837, and was not compulsory until 1874. The best evidence of the state of affairs towards the latter part of the seventeenth century is that provided by the careful calculations of Gregory King, the Lancaster Herald, whom Macaulay describes as "a political arithmetician of great acuteness and judgment." His estimates bring out a ratio of births of 35·75 per thousand of the population

at that time.¹ As regards deaths, the ratio works out at 33·3 per thousand. Hence a population relatively unprogressive in numbers.

The closest investigations of modern research have established the conclusion that our birth-rate stood somewhere about 35 per thousand in 1800.² Hence, in spite of all the theories to the contrary, we must accept the conclusion that the birth-rate was probably stationary during the eighteenth century, even during the period when our population was increasing, as already mentioned, from about 6 million to over 8 million.

It follows from this that the considerable increase in population registered during the latter half of the eighteenth century was due to the decrease in the death-rate. And this is supported by the fact that the best investigations suppose the death-rate in 1800 to have been about 25 per thousand, as opposed to the 33 per thousand, or thereabouts, of former times.

If we now pursue this important matter up to the middle years of the nineteenth century, it is to be noted that the death-rate at that time was 22·7 per thousand. This is equivalent to a fall in the death-rate of no less than over one-third since the days prior to the Industrial Revolution.

Now we know that it is among infants that the highest mortality occurs. Therefore it further follows that, during the time when the Industrial Revolution was in its most difficult period, the

¹ *Natural and Political Observations and Conclusions upon the State and Condition of England*, 1696.

² Cf. Carr-Saunders, *Population*, 1925, p. 40.

great increase in population was due to the better care of life and, almost certainly, to the better care of child life.

To pursue the same matter from 1850 up to date, it was in the year 1875 that a most remarkable phenomenon began to display itself, in the shape of a fall of the birth-rate. The birth-rate in 1871-5 was 35·5 per thousand. Thus, in two centuries, this rate had, up till then, altered only slightly, assuming the correctness of the calculations of Gregory King. But from that time onward we remark a very rapid fall, up to the date of the Great War, which has continued since then. For, on the average of the years 1911-15, the birth-rate was only 23·6, or a fall of 33 per cent. on the 1871-5 figures. It is to-day about 17 per thousand, a fall of 51 per cent. on the 1871-5 figures.

How, then, was it that, during that same period our population increased so hugely, if, as we see, the birth-rate was falling so fast? It was because there was an immense fall in the death-rate during that same epoch from 22·7 per thousand in 1851-5 to 20·0 in 1871-5, right down to 14·3 per thousand in 1911-15. It is to-day about 12 per thousand, a fall of 40 per cent. on the 1871-5 figures.

Thus, whereas in the epoch prior to the Industrial Revolution the death-rate was probably about 33·0 per thousand, the death-rate is to-day only about 12 per thousand. With what logic, then, and with what justice, can the sponsors of

the Industrial Revolution be stigmatised in such terms as we have read above, before the bar of history?

Apart from these two factors of increased prosperity and increased population, there is a third factor to be mentioned in our estimate of Capitalism, which is sometimes forgotten, though it has proved highly beneficial not only to ourselves, but also to the world at large.

During the seventeenth and eighteenth centuries, as our capital slowly accumulated, some of it was invested abroad, chiefly in cotton and tobacco plantations of the New World, and, as time went on, in India. But, as we were so constantly at war from 1701 to 1815, this process was checked until after 1815. It was then found by our capitalists that the novel energy of the machinery of our textile industries, after easily supplying home requirements, could also produce enough to buy us the required food and raw materials for our expanding population. A balance was still left, even after those calls upon our manufactured goods were satisfied. This balance, when sold abroad, was left there in the shape of investments. Thus was it that our capital investment was resumed, being mainly placed in building railways on the Continent of Europe. This policy was followed up by investments in the securities of the young American States, and later in American railways, the first recorded loan for these latter being issued in 1836. From that time forward a world-wide

investment policy was pursued under the auspices of the financiers of the City of London.

Dr. Bowley has estimated that in 1860 our total foreign investments were about £750 million.¹ Another high expert, writing in 1914, declared that "British foreign investments, which now amount to £3,500 million, are likely in future years to increase rapidly beyond that figure. . . . Great Britain has for some years past never invested less than £100 million a year in the Colonies and in foreign countries, and recently the amount has been in the neighbourhood of £200 million." ²

By such means as these our capitalists were building up, and had been building up for generations, the prosperity of the world and of ourselves. For it may be calculated that of these huge foreign investments, totalling about £3,500 million, about 60 per cent. had been used to construct the railways of the world, and the remaining 40 per cent. to create supplies of food, of minerals, and of raw materials for the general advantage. To-day the total is £4,000 million.³

There is a fourth, and final, service which Capitalism has performed at home. In 1907 a Census of Production was made for the first time in this country. A study of those documents enables us to gather what the function of

¹ Dr. A. L. Bowley, *England's Foreign Trade in the Nineteenth Century*, p. 75.

² C. K. Hobson, *The Export of Capital*, 1914, pp. 161-2.

³ Sir Robert Kindersley's estimate, *Economic Journal*, June 1930.

Capitalism had been both in supplying funds to industry at home and in distributing to the parties concerned the results of operation.

The amount of capital engaged in this country in productive industries, organised on any considerable scale, was about £1,500 million at that date, though if one included companies of all descriptions, it would be about £2,000 million. The numbers employed in the industries supported by the capital of £1,500 million, comprised about 7 million persons, a considerable portion of the nation, if one reckoned in their families. The net output of those industries was £712 million.

It must be realised that from this latter sum certain charges fall to be deducted, mainly for depreciation. These totalled £95 million. After that come wages and salaries. The wages approximated to £70 per head per year. The salaries reached about £100 per head per year. These two charges, of £450 million for wages and £50 million for salaries, constituted an aggregate of £500 million for Labour.

The above figures show that, out of the total sum available of £712 million less £95 million, *i.e.* £617 million, there was being paid £500 million to Labour. Hence there remained £117 million available for Capital. Nevertheless, those acquainted with business will be aware that, before Capital could appropriate that sum, it must, in the interests of all concerned, put aside sums to reserve, apart altogether from what was allocated above to depreciation or mere obsoles-

cence. The reason of this is that Capitalism is engaged on a risky business, which, without reserves, would sooner or later come to grief. New ventures demand the provision of new machinery and so forth. First there should be allocated from 1 per cent. to 2 per cent. on the capital for reserve purposes. This leaves something under £100,000, or about 6 per cent., as the balance available for capital.

An expert Committee, commenting in 1927 upon these calculations of 1907, has endorsed them in the following words: "Although the table cannot lay claim to any high degree of precision, it may serve to indicate the approximate relations of the sums applied out of the values produced in manufacturing and mining establishments in the United Kingdom in 1907 to the remuneration of the various agents of production."¹

Grounding ourselves therefore on these calculations, can we not say that all this is a not unreasonable arrangement? One would like Labour to have much more, but who is to provide it? For Capital must be afforded a fair remuneration for its risk. Otherwise, it would go elsewhere, or would not be accumulated at all.

Such, then, are four main services which Capital can fairly claim to have rendered to the British people in the period from, say, 1770 up to our day.

¹ Committee on Industry and Trade, *Factors in Industrial and Commercial Efficiency*, 1927, Part I, p. 469.

How, then, is it that, in spite of such services, Capitalists have been exposed to the intense feelings of hostility illustrated in this and the preceding chapters? Assuredly, such sentiments merit a calm and scrupulous diagnosis. Are they founded on existing facts?

As mentioned already, this spirit of animosity is partly due to the distribution of our wealth, and partly due to the distribution of our economic power. These two causes are, no doubt, so closely inter-related as to react constantly on each other. Wealth involves economic strength, and vice versa. Riches arise from economic power, economic power from riches. Nevertheless, the two causes are distinguishable, and may be treated apart, though converging to one end. The first of them has already been treated in Chapters II and III. It was on the second cause that emphasis was laid in Chapter IV, and must be laid in this chapter. For during the period now in question Capitalism acquired very special power, which power was potent to stimulate the animus now under examination. Why, then, we must ask, did Capitalism now become so particularly strong?

It will be remembered that the argument of the last chapter was that, since the decay of the Gild system, the so-called domestic system of industry had been in vogue during about two centuries up to the date of the Industrial Revolution. It was also argued that under the latter system the status of the workers had contained

one element of strength, and another of weakness. The worker was strong, in virtue of living in the country, and of thus having another string to his bow in agriculture. He was weak, because, living in the country, he was relatively isolated, and thus incapable of establishing an organisation in defence of his interests.

It was upon this loose and scattered structure that the Industrial Revolution fell. The new inventions necessitated the discovery of a new form of power suitable for their large-scale operations. The old form of power had been the skilful hand and the running water; henceforth it was steam derived from coal. This, in its turn, necessitated a huge migration to the regions situated above the coal measures, which, up till then, had been among the most deserted and abandoned parts of England.

This change had an important influence upon the distribution of economic power in this country. Transported by the factory system into the areas of coal, the workers were inevitably cut off from their root in agriculture. But were they not, *per contra*, henceforth endowed with the opportunity of association, of combination, in the factories, and thus with the hope of regaining in one direction what they had lost in another? Truly, but only in the far future. For be it remembered that industry only moved by stages into the big factories. In 1835 it was calculated that the average woollen or worsted mill in England employed only 45 persons,

including all the women. Even in 1840, when things had been rapidly developing, the average number of persons employed in the Yorkshire worsted mills, which, for those days, were the industrial giants, was only 75.¹

Besides this, not only were the factories small, but "because no single British industry had passed through a complete technical revolution before 1830, the country abounded in ancient types of industrial organisation and in transitional types of every variety."² In illustration of this it may be mentioned that in 1838 the historian of industrial Yorkshire calculated that even still only about half those engaged in the woollen industry worked in factories: outside were ranged, waiting to be absorbed into the new-built factories, a majority of piece-working weavers and a minority of the still independent clothiers.³ In 1835 in the new monster industry of cotton no fewer than 450,000 cotton workers were employed. But only about half of them were housed in mills, as yet.

Besides this, in our greatest industry, the Textile Trades taken as a whole, female labour dominated from the first, and this labour was indisposed to organise or to insist on a share in industrial power. These trades comprise the giant industry of cotton, both in its weaving and

¹ A. Ure, *Philosophy of Manufactures*, and *Second Report on Mills and Factories*, App. II.

² J. H. Clapham, *An Economic History of Modern Britain*, p. 142.

³ Baines, *op. cit.*, Vol. II, p. 625.

spinning divisions, the woollen and worsted industries, and the textile finishing trades, together with the statistically less important silk and linen and hosiery trades. These businesses altogether employ to-day the enormous total of one and a quarter million persons. Of these employees the number has varied from about 60 to 66 per cent. of women during the last two decades.¹

All this indicates how naturally, during this epoch, Capitalism established itself on autocratic lines. For one thing, the employees in the new factories were men uprooted from their homes in the country districts or in Ireland. For another, in such a typical industry of the new age as cotton, the operatives were considerably composed of women, who were indisposed to organise as a fighting force. And lastly, the structural organisation of the industries themselves was during the earlier decades divided between factories on the one hand, and the old domestic or outwork methods on the other. Owing to all this, the autocracy of Capitalism could scarcely fail to be definitely and almost naturally established.

Besides this first factor of the relative weakness of Labour, there was another factor of the very first importance tending to accentuate the ascendancy of Capitalism. The Industrial Revolution, as we can now review it with the experience of our own days, had the supreme misfortune

¹ Cf. Final Report on the Census of Production, 1924, published in June 1930.

to have been born in an age of international war, that terrific struggle waged against Revolutionary and Napoleonic France, which lasted nearly a quarter of a century, with brief intermissions. This prolonged strife had effects lasting right up to our own day. In fact, we have never quite recovered from it. It set the character of our industrialism as follows.

Spencer Walpole, the sober historian of nineteenth-century England, has expressed the opinion that, in the earlier decades of his period, the labouring classes "were perpetually becoming more and more impoverished . . . the most frightful distress was almost universally prevalent." By 1830 their condition was "growing more and more intolerable." He proceeds to declare that even this was "as nothing compared with the protracted wretchedness which commenced in 1837 and continued in 1842." And he concludes on this topic by saying: "I desire to express my deliberate opinion that the wave of misery in Britain reached its summit in the course of 1842." Correspondingly, one of the most eminent economists of our later time, Alfred Marshall, has declared that those times were calculated "to bring the working classes into the greatest misery they have ever suffered, at all events since the beginnings of trustworthy records of English social history."¹

But before we conclude all this to be correct, let us take other evidence. The latest investi-

¹ *Principles of Economics*, Book IV, Chapter IV, section 2.

gator, the author of *An Economic History of Modern Britain*, treats all this as a "legend" which "dies hard," and considers that, from the first, statistics prove that things really went the other way.¹ No one can accuse John Stuart Mill of lack of sympathy with the people, with want of perspicacity or ignorance of the facts about him. Yet, writing in mid-century, Mill gave it as his opinion that "subsistence and employment in England have never increased more rapidly than in the last forty years."² Macaulay was not a trained economist, but he was a trained observer and historian. In 1848 he wrote in a similar strain in the third chapter of his *History of England*; and nine years later added a footnote to the edition of that year, reiterating the view that "England has continued to advance rapidly in material prosperity. There is scarcely a district which is not more populous or a source of wealth which is not more productive at present than in 1848."

What are we to conclude between these two opposite views, one of which indicates that the Industrial Revolution deprived Labour of economic power, and the other of which indicates the opposite?

I believe the true view to be that, at the early beginnings of the Industrial Revolution, there was a high prospect that the workers of this country would gain in industrial power rather than the

¹ J. H. Clapham, *op. cit.*, Preface, p. vii.

² *Principles of Political Economy*, Book I, Chapter X, section 3.

reverse, owing to the rising wages. An excellent contemporary observer noted this initial and normal increase of prosperity; every family, he says of the early days, began to bring home 40 to 120 shillings a week.¹ Of more scientific importance are the recent studies of Professor Silberling of the United States. His index-numbers and his diagram establish that, taking the base-line at 100 in 1840, industrial wages rose from a level of 72 in 1790 up to a level of 102 in 1850, a rise of over 40 per cent.²

But, accompanying this prosperity, we must realise the terrible effects upon the cost of living of the wars of those days, not to mention the rise of prices which preceded that struggle, owing presumably to the pressure of the increasing population. From 1785 up to 1815 there was an immense rise in the cost of living. It is true that thereafter there was a long decline, in spite of many temporary upward fluctuations, up to, say, 1850, and that this finally resulted in restoring the cost of living in 1850 to about the same level as that of 1785.

Nevertheless—such, at any rate, is my conception of the truth—the long initial period of intense depression which occurred in the opening decades of the Industrial Revolution determined some of its characteristics for generations to come. Then was created that gulf between Labour and Capital at the very epoch when there

¹ W. Radcliffe, *The Origin of the New System of Manufactures*, &c., 1828, quoted by Baines, *op. cit.*, pp. 338–9.

² *British Prices and Business Cycles, 1779–1850, 1923.*

should have been compact and co-operation. At once and thereafter there were intense reactions against Capitalism, as if Capitalism, which was breeding plenty, and not the war, which was breeding scarcity, were causing the rise of prices and the acute miseries of the time. Modern Capitalism was thus born into a world of conflict not of its making, and took the imprint of that stern and iron age. It concentrated its power. It closed its ranks. It assumed traits of ascendancy and of harshness not really native or essential to its character. These were stamped upon it not by the corruption of wealth, but by the cruelty of war.

Accordingly, an unequal distribution of economic power was now engendered, primarily, by the decline of the domestic system of industry, and, next, by the immense evils inflicted on Labour by the rising cost of living rendered inevitable by our prolonged wars. But, besides all this, a third cause operated in the same direction to turn the scale of power during the first fifty or sixty years of the Industrial Revolution. This was the Law.

As the mediæval system had begun to vanish at the close of the fifteenth century, and as the Gilds lost their hold on industrial life, the State, in substitution of this declining factor, had displayed a correspondingly intense activity in industrial affairs. Spasmodically, during the preceding centuries, it had interposed in industry, as witness the series of the Statutes of Labourers

in the latter half of the fourteenth century. But now, for about one hundred and fifty years, it was continuously concerned to settle the industrial problems of that epoch on a stable basis. It is true that now and then, as in the period 1549-53, it lost control, and private interests snatched dominion. But, on the whole, the State under the Tudors and the early Stuarts was strenuously resolute to do its best. As regards the food supply, the Book of Orders of those days contains regulations minuter and more embracing than those of the Great War of our day. So, too, with purely Labour legislation, as instanced by the Weavers' Act of 1555 or the Statute of Artificers of 1563. So, again, with legislation concerning destitution and unemployment, as represented by that immense legislation culminating in the great Acts of 1597 and 1601, which, till 1833, remained the basis of our Poor Law. Besides this, the Government did not merely content itself with passing Acts through Parliament. Its predecessors, the mediæval statesmen, had constantly passed Acts, which remained on the Statute Book as pious aspirations or as abstract reflections rather than as effective laws to be executed and obeyed.

The Tudor and Stuart statesmen, on the contrary, had at their disposal an effective instrument of executive government. This was the Privy Council, with its agents in the country districts, the Justices of the Peace, and with its vigilant Law Courts, the Courts of the Star Chamber and

of Requests. It is, perhaps, too much to say, with one economic historian, that "during this hundred and fifty years the control of industry passed entirely to the central Government." Nevertheless, the activity of the Crown, of Parliament, of the Privy Council, of the Justices, of the Law Courts, constituted altogether an active organisation on the side of a fair distribution of economic power to be opposed to the potent self-seeking economic passions let loose at the Renaissance.

But in 1660 all this was reversed. Thenceforward, for about one century and a half, statesmanship moved in the opposite direction. This converse movement may be dated from 1660, because it was in that year that the great landowners rid themselves of the feudal payments to the Crown; and also from 1662, when there was passed the notorious Act of Settlement. This epoch, of about one hundred and fifty years, which we must regard as of a reactionary nature, culminated in the years 1813 and 1814, when the laws for the better regulation of wages, and the Statute of Artificers, were both repealed.

At any rate, the latter half of the seventeenth, the eighteenth, and the opening decades of the nineteenth centuries witnessed the overthrow of the powers of the Privy Council, of the Justices of the Peace, of the Law Courts in their industrial sphere of activity, and of the Industrial Statutes—in fact, of all the instruments designed by preceding Princes for the safeguarding of the public.

May we not include in this catalogue the overthrow, in substance, of Parliament itself, in favour of that small circle of great landowners, of merchant princes, and of capitalist manufacturers who ruled England for those generations through the machinery of the pocket-boroughs, directing Navigation Acts and Colonial Legislation to the ends of their own prosperity?

This is not all to be said of the Law as the distributor, in that epoch, of economic power. The Law of Settlement was so harshly amended that Adam Smith says of it, "There is scarce a poor man in England of forty years of age, I will venture to say, who has not for some part of his life felt himself most cruelly oppressed by this ill-contrived Law of Settlement." Then, too, the Combination Laws culminated in the famous Act of 1800, which, until abolished in 1824, forbade all combinations of workmen for the purpose of obtaining an advance in wages or lessening the hours of work. As the historian of the Criminal Law expresses it, in writing of that epoch, "The only freedom for which the law seems to me to have been specially solicitous is the freedom of employers from coercion by their men."¹

Thus, in the period following the Industrial Revolution, the workers were essentially weak, owing to the particular nature of that "domestic" organisation inherited from ages past; the wars of 1793 to 1815 further tilted the balance against

¹ Justice Stephen, *History of the Criminal Law*, Vol. III, p. 208.

them; and thirdly, the Law and the Constitution added their weight on the same adverse side. But there had been another cause not yet mentioned that has more permanently and most potently affected up to our own day the regulation of economic power. This cause has resided in Capitalism itself.

This cause was that Capitalism experienced during the period under review an urgent call to organise itself on the basis of authority. Why was this?

In order to explain this, we must remark that the best economic energies of England were devoted during this period to the expansion of our Export Trade. In that period our exports rose from £10 million in 1780 to £700 million to-day. In our most important industries a very considerable portion of the whole output was regularly sent abroad. Thus, about 75 per cent. of the whole output of our Cotton industry was exported; in the Iron and Steel industries the proportion of exports to production was about 50 per cent.,¹ while about half the balance was further manufactured at home and exported too. In Coal the proportion exported to the total output was about 33 per cent.² These ratios remain.

Besides this, in the period before the War, this tendency to concern ourselves with exports was on the increase. Our exports for 1913

¹ Committee on Industry and Trade, *Survey of Metal Industries*, 1928, p. 50.

² Report of Royal Commission on Coal Industry, 1925, p. 4.

were up by no less than 80 per cent. on the figures of ten years before. And, correspondingly, the numbers engaged in Great Britain in the exporting group of industries increased during the decade prior to the War by approximately 20 per cent., though the total occupied population increased during the same period by only 12·5 per cent.¹

On the whole about 30 per cent. of our industrial energies were devoted to exportation.

Now, businesses seeking to establish themselves in foreign markets are exposed, and were increasingly exposed from 1770 up to our own time, to the double rivalry of foreigners competing against them in the neutral markets and to the active rivalry of the native firms in those markets. Theirs is therefore a struggle of continual risk, though this was a trifling affair compared with the factors operating to-day.

Accordingly, our great merchants and leading manufacturers were men seasoned in authority and imbued with a sense of command. It never could have occurred to them to run their businesses on democratic lines. They were pioneers of profit in far and critical markets. They could not win out otherwise. It was all the breath of their life. If you had told them, as *Labour and the Nation* now insists, that "in industry . . . government by consent

¹ Committee on Industry and Trade, *Further Factors in Industrial and Commercial Efficiency*, 1928, p. 232.

is not only more humane, but actually more efficient than autocracy," and that "the struggle for personal gain" must be abandoned in favour of "the deliberate organisation of the whole community in the service of all,"¹ the potentates of New Court or of Lombard Street, the leaders of the Liverpool Cotton Exchange or of the Manchester Chamber of Commerce, the big guns of the Woollen and Worsted Trades Federation at Bradford, or of the National Association of Blast Furnacemen would have gone up in smoke.

But it may be asked at this point, What of the workers not engaged in the Export Trades? After all, these latter would constitute some 70 per cent. of the whole number. The answer is that the economic stress applied to most of them also, and had similar reactions upon their status. In order to explain this, a word or two must be said as to the fiscal policy of England during the period in question.

In attempting to raise money, the Stuarts lost their crown and the Hanoverians lost their colonies. The younger Pitt, in arranging for the finance of his Great War, was more fortunate than his forerunners, in that he had young Capitalism to bleed. Those predecessors had based the fiscal policy of England partly on small "assessed taxes" of a direct character, but mainly on indirect taxes, so that in 1787, in the initial years of the Industrial Revolution, the

¹ *Labour and the Nation*, revised 1929 edition, p. 51.

Customs list comprised no less than 1,425 articles.¹

To meet the necessities of his wars, Pitt imposed, as from 1799, an income tax of 2s. in the pound. But simultaneously he felt obliged to multiply the rates of indirect taxation to such an extent that, at the close of 1815, almost every article that could minister to the wants of man, physical, mental or moral, was taxed or re-taxed. Most foreign manufactures were prohibited; all home industries were protected; Colonial products were differentially treated; raw materials were heavily penalised; food imports were practically excluded;² Duties were excessive; collection was costly; smuggling rampant; fraud universal. To add to the difficulties of the Exchequer, Parliament, instead of imposing high rates of income tax, super-tax and death duties, as it did in our day, actually abolished the income tax in 1816 "for ever."

Parliament not only abolished the income tax, but it also began to reform the Customs duties. The individual chiefly responsible for this new policy was Huskisson, President of the Board of Trade from 1823 to 1827. He found our system strictly protective and largely prohibitive; he left it still protective, but far less so than before, and with prohibition, except as to some articles of food, practically swept away.

¹ Cf. Report of Commissioners of Customs, 1870, C. 148; also their report for 1857.

² Earl Buxton, *Finance and Politics*, Vol. I, p. 19.

From that date up to 1866, a period of sixty years, the policy of abolishing or diminishing duties was pursued, so that in the latter year the Customs list, which comprised, as mentioned, no less than 1,425 articles in 1787, and had been reduced by Huskisson to 1,280 articles, now comprised in 1866 only 47 articles. This work had been accomplished mainly by Sir Robert Peel from 1842 to 1846, who, in order to meet the gap in the revenue thus created, re-imposed the income tax in 1842 at the rate of 7*d.* in the pound. In the Budgets of 1853 and 1860, Mr. Gladstone, who followed in his footsteps, practically completed the work of Sir Robert Peel. In the Budget of 1853, he laid down a plan for the abolition of the income tax altogether.

The bearing of all this upon our present topic is, that British industries, even when not organised for export, were exposed to some competition during the nineteenth century. Hence precisely the same forces as induced concentration of economic power in the export industries acted upon the others too.

To give a comprehensive view of British industrial life, as organised under the regime of capital, this was disposed in 1914 into a gigantic total of 62,762 companies, with an average capital of £40,000 each, 14,270 of them being public companies and the rest private companies.¹ Since those days their number has approached

¹ Figures from the Annual Reports on Companies compiled by the Board of Trade.

110,000. Their structure has been, and is, on lines of authority.

There was a last cause, not the least powerful of them all, which has much affected the distribution of economic power. This cause is Science as applied to Industry.

For three centuries, since the Revival of Learning, English education had stagnated or declined. This is amply proved from the Reports of the Education Commissions of the 1860's. These show that, of the 4,300,000 children requiring elementary education, 2 million were not at school at all; while another 1 million were at schools of utter inefficiency. If the elementary system was bad, the secondary system was really pathetic in its decrepitude. Technical education had shared the stagnation of elementary, of secondary, and of university, education.

The result of all this on the distribution of economic power during the nineteenth century was very direct. An uneducated people could not possibly be considered qualified to be associated in the direction of industry. But, as the century rolled on, it began to be perceived that without scientific education we should everywhere be beaten in trade. So the cry swelled year by year for science, for technical instruction, and so forth. Singularly enough, however, by the strange irony of so many economic events, the first result of all this movement, in relation to the distribution of economic power, was much the same as that of ignorance itself.

At any rate, the impact of Science upon Industry has had, for the manual workers, rather complicated results. For those workers who have acquired some scientific training it has meant increased status and advanced rates of pay. For those who have not had such opportunities it has meant that they have become less indispensable than formerly, and therefore are lowered in economic power. And lastly, Science has exercised an intense impact upon the structure of the individual industries by prescribing the need for an incredible specialisation, itself calculated automatically to depress the scale against all individuals of all sorts. For it has encouraged that differentiation which is so marked a feature in modern industry—that is, the infinite widening of the gulf in time and space, not merely between the individual producer and the individual consumer, but also between individual producers *inter se*.

Glance only at the Lancashire cotton industry, bounded at one end by the stupendous organisation of the Liverpool Cotton Exchange, and at the other end by the Manchester Market for manufactured goods. And then remark the incredible differentiation evolved within the actual industry itself, as organised into a spinning section, with its two huge subdivisions, into a weaving section, and into a finishing section, the latter sub-divided into the bleaching, dyeing and calico-printing trades.

Finally, Science has not proved very com-

patible with, or sympathetic to, industrial democracy. For, while democracy believes that the ordinary man is a being in whose capacities it is fairly safe to trust, Science holds the opposite view. Science asserts that evolution has put in the forefront of man's nature the wrong faculties for dealing with things. His senses—so Science acquaints us—were forged, not too well, in primæval epochs, and are the crude birth of geologic time. Coming to life ages before the dawn of Science, they are quite out of court for her present purposes.

Therefore, the business man, discarding industrial democracy, follows ever more closely and more humbly and more hopefully at the heels of that Goddess, who will give him victory in his Economic War. When she tells him that she will lead him to vaster power than man has dreamed of, and to more knowledge than the whole that he has now in store, though she be herself but a child on the mere margin of the Infinite, and though the mathematics of her wisdom grow, not in a converging, but in an ever-diverging, series, he believes.

CHAPTER VI

THE BALANCING OF ECONOMIC POWER

LET me summarise the argument thus far set forth in the course of the preceding five chapters.

On a survey of our economic history it has been shown that there was, after many mighty fluctuations, during the eighteenth and the nineteenth centuries, a definite incline of the economic scales in favour of Capital. The movement was marked in Agriculture by the fall of the yeomanry at the close of the eighteenth century, and in Industry proper by the decay of the "domestic" system at the same time. Thus was inaugurated that remarkable concentration of economic wealth and power of which our age is a witness.

In regard to this tendency, it was further argued that Capital, in its ascendancy since the Industrial Revolution, has performed four main services: it has secured a fourfold growth of prosperity between 1800 and our day, reckoning per head of the population; it has financed an immense increase in life, as witnessed by the fall of the death-rate, without which, indeed, no increase of the population, in view of a stationary

or declining birth-rate, could have been achieved. Thirdly, Capital placed abroad, by the year 1914, no less than £3,500 million, or £4,000 million as it stands to-day, of our surplus savings, about 60 per cent. of which has probably been utilised for the construction of foreign and colonial railways, and the remaining 40 per cent. for the creation of supplies of food, of minerals and of raw materials generally. And fourthly, Capital has furnished a current distribution of the proceeds of industry which, on the face of it, does not seem unfair.

Nevertheless, our argument further indicated that these services of Capital were accompanied by an increasing concentration of economic wealth and power, the causes of which were analysed in detail.

Hence disequilibrium, and hence dissatisfaction, and hence combat: the Economic War! The real, or the relative, Lazarus is invited to examine the indubitable Dives, and to discern him, not in torment, but, on the contrary, quaffing his nectar yonder, like a Lucretian god. And then the equalitarian doctrines of a Rousseau or a Marx put an edge to appetites and instil wrath. Will there, then, arise a red religion out of the martyrdom, real or supposed, inflicted by the Industrial Revolution? Will the *Sanguis Martyrorum* become the *Sperma Ecclesiæ*?

This chapter furnishes the reasons for concluding otherwise. In a later chapter I

hope to show that this issue between Capital and Labour tends to be superseded by another issue of no less, or of even major, gravity.

Yet, at first sight, and, indeed, on an inspection of the figures not only of the immediate past, but also of the current time, one might be led to consider such a conclusion to be erroneous. For, what is the test and measure of the Economic War as between Capital and Labour? Is it not, to put the matter as concretely as possible, the number of days lost to industry in the course of the industrial conflicts between Capital and Labour?

If, accordingly, we take the number of working days lost in this manner during the twenty years before the War of 1914, that figure is about 8 million days as a yearly average. Further, if we look a little more closely at the same matter, it seems that the average annual number of stoppages in the period 1902-9 was 456. In the period 1910-13 the number was 947, a considerable increase of strife. Thus it looks, so far, as if there is not much foundation for the belief that the Economic War, in its old phase of a conflict between Capital and Labour, was tending to diminish even in normal times prior to the War.

But there is more than this to be said on the same side. If we add up all the disputes in all industries for the years before the War—*i.e.* 1907-13—these were 5,082. If we add them

up for the years following the war—*i.e.* 1919–25—these were 6,239.¹ Thus, on this showing, the Economic War grows hotter. Add to this that in one single year since then, in 1926, the loss of working days in the great economic convulsion of that year was no less than 163 million, which was actually greater than the aggregate of all the working days lost during the twenty years preceding the War of 1914–18. These are hard facts indeed !

Nevertheless, to these persuasive statistics and to this seemingly irrefragible argumentation there can be opposed a reasoning more powerful still. For, if the root causes of this conflict be as explained in the preceding chapters, and if, further, as will be shown in this chapter, these causes are in course of elimination, then it follows irresistibly that the converse of what current statistics seem to indicate is true.

If, in accordance with the latter line of reasoning, we survey the period from 1870 up to our own hour, we shall observe that, in contradiction or in modification of the conflict between Capital and Labour, four mighty forces of separate origin and character have slowly and steadily been working to the final end of reconciliation and peace. There has been the force of Economic Theory. There has been the force of Taxation. There has been the force of Social Provision. There has been the force of Organised Labour,

¹ Cf. Committee on Industry and Trade, *Survey of Metal Industries*, 1928, p. 424.

or Trade Unionism. Hence—such, at least, is my argument—our great line of economic thinkers, our statesmen of all the parties, and our organised workers under the leaders of their choice, all these have combined to provide a solution of the Economic War, in its historic phase of a combat between Capital and Labour.

The purpose of this chapter is to set forth this argument in the above order.

In order to examine how men's minds now began, after 1870, to turn slowly and tentatively towards a more balanced distribution of economic wealth and power as a preventive of the danger of economic strife, we must begin by looking at abstract economic theory.

May one suggest that in this department a new departure was marked, first by the publication in 1871 of *The Theory of Political Economy* by Jevons; and next, by the publication in that same year of the revised seventh edition of *The Principles of Political Economy* by John Stuart Mill?

The work of Jevons suffers, perhaps, from a certain defect, this being a rather superfluous display of mathematical reasoning, coupled with a very un-mathematical fervour of denunciation against preceding economists, thus imparting a hue of emotion to the calculations of science which should be colourless. Jevons wishes "to fling aside, once and for ever, the mazy and preposterous assumptions of the Ricardian School," and so forth. As a matter of fact, his

own definition of Economics as "the calculus of Pleasure and of Pain," and his declaration that "to maximise Pleasure is the problem of Economics," however excellent, are both quite in the old Benthamite vein.

But, on the other hand, Jevons, in his chapter on "The Theory of Utility," proves something really momentous, which, though tolerably obvious nowadays, was then really new, so far as anything is new in economics. Jevons establishes by strict mathematical reasoning that "utility is not proportional to commodity"; and also formulates, by the same agency, "a general law, that the degree of utility varies with the quantity of commodity, and ultimately decreases as quantity increases." And he concludes on the note of "the great principle of the ultimate decrease of the final degree of utility of any commodity."¹ Fairly obvious, one would think.

If, however, we apply these propositions to practical life, they have a serious bearing and content upon which Jevons himself did not dwell. Wealth, presumably, is a commodity. If it decreases in value as it increases in volume, as Jevons showed, then the path is made easy for the State, one day, to darken the doors of Dives, and to direct his superfluity to the needs of Lazarus. And indeed, though the proposition of Jevons had no immediate visible influence—it was the date when Mr. Gladstone was busy putting into practice the opposite economic

¹ *Op. cit.*, pp. 44, 51, 53.

theory of reducing direct taxation—we cannot but reflect that the seed had been sown and the word had gone forth of a considerable economic revolution, all the more when we realise that a mighty band of economic thinkers of ever-increasing resource and subtlety has followed, from that day to this, in the trail thus blazed.

That “invisible hand” so tender to property, believed in by Adam Smith and Ricardo! That hand might well, on the Jevonian hypothesis, become no less an organ than the very “visible hand” of the Inland Revenue, half-yearly in every rich man’s pocket. But all this was as yet in the future. In England mathematical theories and the “calculus of Pleasure and of Pain” are not immediate levers of public opinion, or, still less, of political action.

That same year 1871 is marked by another event in the development of pure economic theory; the publication by Mill of his last revision of his *Principles of Political Economy*. In that revision Mill moves definitely towards Collectivism. Disciples could now read again, in the light of the new time and the changing opinions of the Master, that Book II on “Distribution,” where Mill taught something of fundamental moment, which, somehow, no one had yet laid to heart.

In this Book II Mill traces the root of the inequality in the distribution of wealth not to the diverse natures or virtues or capacities of men, but to the specific laws authorising or acquiescing

in the freedom of testamentary disposition. He argues that the tendency of legislation had favoured not the diffusion, but the concentration, of wealth.

Since those distant days we have had a long line of profound and weighty thinkers, led, let us say, by Professor Cannan and Professor Pigou in Great Britain, and by Professor Taussig and Professor Ely in America, arguing that "one of the great world movements of the age" is "modification in the treatment of gifts and inheritances" by the State.¹ Their general position is that what is at the root of inequalities in fortune is not so much variations in capacity as variations in inheritance. A serious political doctrine with weighty implications. For, clearly, if the inequalities in fortunes are mainly due not to the economic varieties of individuals or to their virtues, but to the changes and chances of inheritance, then, already, the Sir William Harcourt of 1894, and the Mr. Lloyd George of 1909, and the Mr. Snowden of 1930, are foreshadowed and forerun.

The next great force which, during these last sixty years since 1870, has been operating in the same direction has been that of Taxation. This force has had its motive power and origin in the passions and proclivities of our modern days.

The new day which was now dawning, and in

¹ Professor Ely, *Property and Contract in Relation to the Distribution of Wealth*, Vol. I, pp. 394-5.

the light—or the darkness—of which we live, was characterised by something which had never before existed in the meteorology of time. Humanity, in former epochs, had often been intent upon the pursuit of death and destruction. Humanity, in former epochs, had often been intent on the purposes of life in more abundance. But hitherto humanity had never devoted its energies, at the same time and with equal intensity, to the service of both life and death at once.

This singular psychology of our age has exercised an overwhelming effect upon our economics.

As regards the service of destruction, the years after 1870 were occupied already with preparations for big wars to come. As Lord Derby said as early as 1876, "Never since the world began have such masses of men been drilled and disciplined for purposes of war;" while, in regard to the future, Lord Salisbury in 1898, after analysing nations into those living and those dying, prophesied that "the living nations will gradually encroach on the territory of the dying, and the seeds and causes of conflicts will speedily appear." Upon national expenditure all this had a reaction as to which we, of all other peoples, have no need to be informed.

But, side by side with the war-like preparations aforesaid, the age in which we live has been characterised by an unique philanthropy, by an unparalleled tenderness, by an unprecedented

care for the preservation of life. As already pointed out, Lazarus was definitely discovered, politically and sensationally in 1903, and scientifically and statistically in 1905.

Then, too, between the service of life and the service of destruction there was now opened up an intermediate sphere of action. Speaking as early as 1896, Lord Rosebery could say that "during the last twelve years you have been laying hands with almost frantic eagerness on every tract of territory adjacent to your own, or desirable from any other point of view. In twelve years you have added to the Empire, whether in the shape of actual annexation, or of dominion, or of what is called a sphere of influence, 2,600,000 square miles of territory . . . twenty-two areas as large as the United Kingdom itself." This combined a little death and destruction with much development and uplift. It, too, cost the money that we know.

In sum, our national expenditure rose from £70 million in 1870 up to nearly £200 million in 1913, soaring from thence up to the region of £800 million in these post-war days. This was due to wars, and warlike preparation, to social uplift, and to the increased expenditure necessitated by an expanding population. How was this great rise in expenditure to be met?

This expansion has been financed according to a new theory of taxation. What is that theory at its root? It is that the marginal utility of income decreases as income grows;

and, following from this hypothesis, that, as the utility of income tends to diminish, so its taxability *pari passu* tends to increase. In fact, the State now adopts the economic position that the special utility of an individual's income commences, for it, at the point at which the greatest utility, for that individual, has ceased.

An immense change of policy has come about, the agencies thereof being, of course, in part, the rise in the standard rate of income tax from 2*d.* in the pound in 1874-75, up to 11*d.* in the pound in 1903-4 and 1*s.* 2*d.* in the pound in 1913-14, rising to 4*s.* 6*d.* in the pound in 1923-24 and 1930-31. The other agency has been the Super-tax, first instituted in 1909-10, and the huge increases in the Death Duties.

In order to appreciate the effect of all this upon individual accumulations of wealth, it is instructive to take taxation as it stood in 1903, the date when the Victorian age had ended, and when, as above mentioned, public attention had finally been focussed on the subject; and then in 1913 as being the last year before the War; and further in 1923, which not only continues the series of decades, but also had a standard rate of income tax of the same height as that in 1930-31; and, finally, in 1930-31, because that furnishes the latest information of all.

For 1903-4 let us take the direct taxation payable by a single person with an investment income of £10,000 a year. It would be at that

date £458. In 1913-14 this same person under like conditions would be paying £758. In 1923-24 and in 1930-31 this same person under like conditions would be paying in direct taxation no less than £3,657 and £3,513 for the two years respectively. All this in respect of Income tax and Super-tax.

Let us now incorporate into the Income tax and Super-tax burden, as thus borne by the tax-payer, the additional weight of Death Duties. But here, in order not to weary the reader by the multiplication of figures which are intended only to establish an argument, let us confine ourselves to the year 1930-31, merely remarking that this was the latest term in an evolution proceeding since the Budget of 1894. Assume the case of a person possessed of an income purely derived from investments and totalling £10,000 a year.

In order to show the annual incidence of the Estate Duty, let it be assumed that this individual insures for such an amount that, after paying the duty, his original capital will be intact. Assume also that the income is from investments, and is capitalised on a 5 per cent. basis. Assume also the individual to be married, with three children, and to be aged forty-five.

Then such an individual with a total income of £10,000 a year pays in 1930-31 net insurance premium to provide for Estate Duty of £2,322, and also, as we have seen, an Income tax and a Sur-tax totalling £3,513. A total of £5,835

payable to the State on an income of £10,000. Above that point the Duties and Taxes are so graded that on £50,000 a year the payment would be £50,987, an excess of payment to the State over income received of nearly £1,000 a year. So steeply have things been advanced that in 1913-14, before the War, the corresponding payment was not £50,987, but £9,268.

This is not all. To-day about 2 million persons pay Income tax. For the poorer ones there are many alleviations in the shape of abatements and allowances, so that no one with an income of under £3,000 a year pays the full standard rate on his whole income. Thus a married man with three children, all of whose income is earned, pays only about 2s. in the pound if his income is £1,500 a year, and about 1s. in the pound if his income is £850 a year.

How our principles of taxation have been changed in order to meet the threat of the Economic War! Look back upon old days.

In 1816, as already mentioned, the Income tax was abolished, and what is known in Economics as "regressive" taxation was instituted. Regressive taxation may be defined as that system under which income, as it increases, suffers less and less from taxation. For instance, in 1818, when the tax revenue was about £57 million, no less than £40 million was raised by Customs and Excise, levied largely on the necessities of life. Yet in that year the ratio of the internal debt service to the total national

income works out at 7·82 per cent.¹ The weight of this item may be realised when we remember that in our post-war days the same ratio is 7·14 per cent. Thus, with a debt charge relatively heavier in 1818 than to-day, our ancestors of 1818 paid no direct taxation beyond a negligible amount.

It is true that, to meet the situation of his later time, Sir Robert Peel imposed an Income tax of 7*d.* in the pound in 1842. But Mr. Gladstone, acting in the true Benthamite tradition, cut this rate down to 2*d.* in the pound in 1874. Thus it has been said by an authoritative Committee of 1927 that “in the Victorian era it is generally true that saving was left as a monopoly in the hands of the wealthier classes, who were allowed to remain in almost complete control of their riches . . . it is true that, under it, industry advanced enormously, and the standard of living improved for the whole community more than in any other period.”²

Compare to-day. Recall a couple of letters recently published, which appear to be of significance in this regard.

In a letter to *The Times*, Lord Lothian takes the public into his confidence, and reveals his economic circumstances. He says that he has lately inherited “a large agricultural estate of over 30,000 acres. . . . The properties are all

¹ Cf. Calculation by Mr., now Sir Walter, Layton adopted by the Committee on National Debt and Taxation, 1927, Report, p. 235.

² *Ibid.*, p. 241.

situated in good agricultural areas, and have been well farmed and properly maintained. . . . Since the War, owing to the operation of rates, Income tax and Super-tax, they have yielded no income whatever to the proprietor. . . . The State now requires what is roughly estimated at over £200,000 for Death Duties on the agricultural estate alone.”¹

But this is not all. Lord Lothian proceeds to say that “I do not write this letter in any way in opposition to Death Duties as such; on the contrary, I consider Death Duties to be a very fair kind of tax, so far as the individual inheritor is concerned. Nor do I write this letter in the interests of landlordism. Whatever its merits in the days before railroads, motors and roads, landlordism is a lost cause to-day.” What Lord Lothian objects to is the way in which the money thus raised is spent: “What is wrong is not Death Duties, but the way in which the proceeds of the Death Duties are used to-day.”

Thus a distinguished landlord not only testifies that “landlordism” is now “a lost cause,” but, what is remarkable, while reserving his right to criticise the distribution of the monies thus raised, he approves the Death Duties as “a very fair kind of tax.” From this testimony one seems to infer that agricultural landlordism, though heavily smitten by taxation, is not in good fettle for a fight.

¹ Letter of the Marquis of Lothian, *The Times*, May 1st, 1930.

Immediately following this letter comes another one from the owner, not of an agricultural estate, but of a private limited Company, who is, he mentions, neither a politician nor a financier, but a man of business responsible for the conduct of "a progressive manufacturing concern." This Company since the War has added two factories to its fixed capital, each of them furnishing employment to about 1,000 persons. Evidently, there speaks here a highly serviceable member of the community.

After investigation by expert accountants, this man of business finds that "if our business continues its present progress for the next five years and makes an additional average annual profit of £30,000, my estate would at the end of that time, and on the same basis of valuation, be involved in additional Estate Duty of £148,000, even though the total increased profit, after Income tax, had only left me £116,000. Which means that, by forging ahead, adding new plant, and giving large additional employment, my estate would in the event of my death at the end of five years be the poorer by £31,750, apart from the sum I should have to pay in sur-tax. It will take a very heroic spirit to continue pioneering under these conditions!"

It seems, according to the writer of this letter, that his case is typical of many others in the North of England, where new enlargements and new enterprises are made impossible because of the Estate Duties. "It is new ideas, with

capital behind them, that can alone create conditions that will attract labour. If a business is drained clean of its reserves it simply stands still or goes to the wall.”¹

Our manufacturer, however,—and this is the point cogent to our present inquiry—suggests no remedy for all the ills which he deplotes. For him, on the contrary, it is all inevitable; for, it seems, “each of the three Parties vies with the other at every election as to who can give away the most, who will shovel out the public money most rapidly.”²

The striking feature to be remarked in both these utterances is their tone of grieved submission, of sombre acquiescence in a fate too strong. For them, the strife is o’er, the battle done, but not done to their advantage.

And finally, the same fact appears prominently if we cite yet one more utterance made about the same date, this time by the head of a great Joint Stock enterprise, the Governor of the London & Lancashire Insurance Company at their general meeting. A more gloomy picture of the defeat of Capitalism in this country it would be difficult to present. “The naked fact” is that we are “displaced” by America, and that since 1913 we have “gone down in our world trade by 13 per cent.” For, industrially, “our struggling country is menaced by an iron-bound system” in favour of Labour. We see—others, in virtue of “the myopia of our legislation,” evidently

¹ Letter to *The Times*, May 3rd, 1930.

² *Ibid.*

do not see—enacted before our eyes “an economic tragedy,” *i.e.* “a prodigal expenditure on what are called social services.”

In this case the speaker went on to declare that “only drastic measures will save us from disintegration,” and he suggested “work, real, intense work”—a true and sound thought, indeed, for ordinary times. But scarcely adequate when we have some two millions of persons already with no work that they can do.

How is it, then, and by what strange paradox has it come about, that Capitalism, so recently represented as menacing and overwhelming, can now be shown by capitalists themselves to be menaced and overwhelmed? This is because, even while Capital has been growing in power and authority, other forces, notably that of Taxation, have been growing up by its side, and have now emphatically asserted their authority in redressal of the balance as between Want and Wealth.

The fact is that the dominant minds in this country up to 1870 fundamentally recommended to let things be. These three minds, Blackstone, Eldon, and Jeremy Bentham, were all men of the law. To Blackstone our political arrangements were “the best birth-right and the noblest inheritance of mankind.”¹ Grafted on the Blackstonian satisfaction with everything ancient, came the Eldonian repudiation of everything alien or new. This produced what

¹ Blackstone, *Commentaries*, Book IV, p. 443.

an eminent Constitutional authority has termed "the era of legislative stagnation,"¹ which occupied the first thirty years or so of the nineteenth century.

With 1830 dawned the great age of Benthamism, a political philosophy one side of which was embodied by Lord Melbourne in his famous axiom, "Why can't you let it alone?" Thus was born the doctrine of *laissez-faire*, according to which every person was to be the best judge of his own happiness, and legislation should aim at the removal of all possible restrictions upon the individual. Although Bentham himself died in 1832, his doctrine ruled us till about 1870—that is, for a hundred years from the start of the Industrial Revolution.

After 1870, the era of Collectivism began, and is still with us. In legislation things moved so fast that Lord Morley could already write in 1881 that "we find the rather amazing result that, in the country where Socialism has been less talked about than in any other country in Europe, its principles have been most extensively applied."² A pardonable exaggeration in a Benthamite philosopher. At any rate, there dawned about 1870 of our era what Sydney Smith once called "rapid high-pressure wisdom."³

Taxation, as we have seen, has changed step by step with the corresponding change in the theory of legislation. To-day, the Committee

¹ Prof. Dicey, *Law and Public Opinion in England*, p. 83.

² *Life of Cobden*, Vol. I, pp. 302-3.

³ *Works*, 1879 Edition, p. 340.

on National Debt and Taxation can state definitely that "the burden of taxation is heavier in Great Britain than in any other country."¹ Not only so, but, whereas about 1870 the ratio of indirect to direct taxation was about 65 per cent., now the ratio is almost exactly reversed, in favour, of course, of Want *versus* Wealth.

But, to proceed further still with our subject, the taxation hitherto imposed is by no means adequate even yet, in the view of many experts armed with elaborate statistical ratiocination. These represent—as the Minority Report of the Committee on National Debt and Taxation of 1927 indicates²—the need of a Capital Levy. They argue that it is beyond question that the internal debt involves, on balance, a transfer of wealth and income such as aggravates the existing inequality in distribution, and tends to increase the proportion of the national income in the hands of non-producers. They contend, further, that the burden of the debt has been very greatly increased by the recent fall in the general level of prices, and that all Sinking Fund arrangements will be too slow to deal with the crisis. They are clear that a levy, the proceeds of which are used to repay the National Debt, cannot destroy capital, since the debt represents no real capital whatever, but only an unproductive charge upon the revenue of the country; "At the end of the operation the real national capital remains the

¹ Majority Report, p. 234.

² Minority Report, paragraph 203.

same as before, though the money capital of individuals is diminished by the cancellation of the paper securities of which the debt consists.”¹ They suggest that a levy would be easy if confined to fortunes exceeding £5,000, the number of individuals thus affected being only in the region of half a million. They argue, too, that considerable as has been the work of reducing indirect taxation, all that process should be pushed much further, “since taxes upon commodities are objectionable in principle,” and should be wiped out on the ground that “taxation should mitigate, not aggravate, inequality in the distribution of income.”²

And then, besides all this, there are presented to us at every turn numerous schemes for the intensification of the Death Duties. These circle round the fundamental proposition of Professor Rignano in his work *Di un Socialismo in accordo colla Dottrina Economica Liberale*, the principle being that the tax on inheritance should be “progressive in time”—that is, that the rate of tax shall increase with the number of times that the property subject to it has already changed hands through inheritance. Thus, suppose that the inheritance tax, on a first inheritance by transmission, is one-third; on a second inheritance, two-thirds; then, on the third transmission, the whole of it could be taken by the State.

It is beyond my purpose to argue upon the

¹ Minority Report, paragraph 203.

² *Ibid.*, paragraph 72.

merits or demerits of these propositions. Enough to show that, whether or not we consider that Labour has already conquered Capital *via* taxation, at any rate the quarry is in full view of the hunt.

The third main factor in the redressal of the balance between Want and Wealth has lain in the policy, gradually adopted during our epoch, of what may be termed Social Provision. As the Red Cross has been organised for the battlefield of real warfare, so Social Provision is the Red Cross of the Economic War.

Social Provision up to date has occupied five departments of activity. There has been, to begin with, the active regulation by the State of the law of contracts of employment, though, indeed, it was as long ago as 1802 that the first Factory Act was passed through Parliament by the first Sir Robert Peel, the father of the Prime Minister.

There has been similar regulation of contracts of payment, as is typified by the Trade Boards Acts and the Agricultural Wages Legislation. Then, there are the Acts obliging employers to make payments in certain circumstances, such as the Workmen's Compensation Acts and Employers' Liability Acts, together with their contributions under the Health and Unemployment Insurance Acts. Next, there is the system of payments from public funds to the workers, such as the State contributions under the Insurance Acts in connection with contracts of employment; and lastly, there are direct State payments to the employees, without reference to contracts of employment,

such as Old Age Pensions, War Pensions, Widows' Pensions, Education Expenditure and Poor Relief.

If we humanise all this, we may consider that there are, from the point of view of the manual worker, five social risks, and that all this Social Provision is calculated to combat them. There is industrial accident, and sickness, and unemployment, and old age, and widowed motherhood. Of these, some are very specially ills, either attributable to, or accentuated by, the Industrial Revolution; clearly so, in the case of accidents and unemployment, while the risks of old age, now that life has been so much prolonged, have been accentuated.

If we view all this Social Provision historically, we may remark that workmen's compensation for industrial accidents started with some industries in 1897, and was made practically universal in 1906. Old Age Pensions date from 1908; while Widows' Pensions were regularly instituted by the Widows, Orphans and Old Age Contributory Pensions Act of 1929. Compulsory insurance against sickness and disablement was introduced by the National Insurance Act 1911, the greatest single measure ever taken till then in any country dealing with that matter, a policy which has been continued and amplified since then by several statutes, the most recent being the Unemployment Insurance Act 1930.

If we consider all this Social Provision, adding thereto what has been spent on Elementary

Education, Housing and the Poor, and deducting therefrom the contributions of the work-people themselves under the Insurance schemes, it seems that, in recent decades, there was a great rise in what the State furnished relatively to wages. Thus, according to Professor Bowley, the national wages aggregate was £465 million in 1880, and £770 million in 1913. But the Social Provision outlay, which was only £16 million in 1880, rose to £80 million in 1913. Hence it follows that, taking the figure of national expenditure on Social Services, the ratio of it to wages, which was 3·4 per cent. in 1880, was 10·4 per cent. in 1913. Perhaps to-day, taking wages at their present level, and adding the employers' contributions under the Insurance Acts, the ratio may be put at something near 15 per cent.

A gigantic effort is thus visible, its meaning being that "the combination of progressive taxation with the extension of Social Services provided by the State has had the effect of transferring a considerable portion of their income from the rich to the poor. In this transfer is to be found a part, at any rate, of the explanation of the improvement in the economic condition of the poor, which even the War has not neutralised."¹

The fourth force which has operated and is operating in the cause of re-establishing economic equilibrium is Organised Labour or Trade Unionism.

¹ Professor Clay, *The Problem of Industrial Relations*, 1929, p. 254.

CHAPTER VII

THE BALANCING OF ECONOMIC POWER (*continued*)

THE preceding chapter was occupied with an attempt to show how certain great forces have been modifying, since about the year 1870, the Economic War, so far as it is a strife between Capital and Labour. It was argued that, although Capital effected a striking concentration of wealth and power as from the epoch of the Industrial Revolution, yet, on the other hand, this inclination of the balance in its favour has tended, and tends, to be redressed by the three potent forces of Economic Theory, of Taxation and of Social Provision. But it was added, so far without argument, that there has been yet another force operating in the same direction, *i.e.* Organised Labour, or Trade Unionism.

At this point it will occur to every one to ask, But is not Labour itself militant, and do not the figures of industrial strife quoted at the opening of the last chapter amply establish this? Does not Labour itself constitute the combatant on one side of the Economic War? How, then, can it also be argued that Labour is a force which has contributed, and is contributing, to the solution of that strife, if it be actually itself one of the parties in that contest?

The answer to this very natural criticism is that

Labour, as organised in Trade Unionism, has had, and has, two sides to it. The movement, as we know it in our day, is the creation of men whose first aim evidently is to provide improved conditions for the manual workers, and who have found it necessary, according to their point of view, to achieve that purpose by opposition to Capitalism. Viewed thus, Labour can obviously be both militant and ameliorative, both combative and constructive. It is in virtue of this consideration that it can be represented, as will be done in this chapter, not in its aspect of a participant in the Economic War, but as an agent in the solution of that conflict, so far as concerns the form which it has hitherto assumed.

Besides, we must realise that in speaking of the Economic War we are using a term of illustration, of analogy. In other words, the Economic War is not a war in the military sense, *i.e.* a conflict for mutual destruction. It is a movement for prosperity, conducted by parties who do not see eye to eye. They are antagonists, certainly, but they are also fellow-citizens. Theirs is a grand argumentation, a stupendous debate, for the common good. In an ordered Commonwealth, such as is Great Britain, argumentation leads to agreement. It is, in fact, my contention that such a composition of the historic strife between Capital and Labour is in process now.

It must not be inferred from this that my deduction from that proposition is that there will be no Economic War in the future. That is

precisely the converse of my belief. It will be demonstrated in succeeding chapters that the Economic War of the future will tend to be more serious and to involve wider issues than it has done in the past. And not only so, but also it will be contended that, as stated at the close of the first chapter, this new phase is already upon us. It is, in fact, this complication of the decay of an old struggle side by side with the rise of a new one which furnishes the clue to the peculiar chaos of the times in which we live. But of this new phase nothing is said in this chapter, which is concerned solely with the part played by Organised Labour in redressal of the balance of our economic life.

The expert who first traced the historical ancestry of our Trade Unionism right back to the mediæval Gilds, was a bold, and if his more learned colleagues are to be credited, a bad expert.¹ For, with an array of learning superior to his own, they have sought to prove him and his fellow-believers altogether wrong. Into that acute controversy it is not my purpose to enter, beyond summarising it with the remark that the substance of the rejoinder is that the mediæval Gilds narrowed down and petered out into monopoly, whereas Trade Unionism was, from the first, broad based upon the people's will. Hence to trace back the Trade Unions to the Craft Gilds is like the work of those too loyal or too imaginative genealogists, sometimes to be noticed in

¹ George Howell, *Conflicts of Capital and Labour*, 1890.

old houses, who construct maps tracing the family of Queen Elizabeth back to the Ark of Noah, with a picture of the Ark inset by way of an extra proof positive.

Nevertheless, though this is indeed the case, there is a subtle and more inward sense in which, perhaps, the affiliation can be reaffirmed, after all. Wherever, to employ the phraseology of Sir Robert Peel, there is "in the abodes of those who labour and who earn their daily bread by the sweat of their brow" an organisation of mutual defence and assistance, there, assuredly, is to be found something of the spirit of Trade Unionism. That such organisations were mediæval is certain. If the fundamental purpose of Trade Unionism is to protect the standard of life, the workers of the fifteenth century aimed at that already. Though it is true that no Trade Union arose, directly or indirectly, from a Craft Guild, and that none originated before 1700, yet one may quote, significantly, statutes, such as that statute of 1425, for instance, which expressly prohibits the "congregations and confederacies" of the building trade operatives.¹

Leaving, however, the antiquarians to bury their dead, we may say that Trade Unionism, as we know it, definitely arose with the opening of the eighteenth century. It was, on one side of it, a new development in the Economic War. It was a reaction against that Capitalism which had been slowly gathering strength since the

¹ 3 Henry VI, C. 1.

fifteenth century and was now making rapid progress with the development of riches and the opening up of the world. An essential feature of modern industry being differentiation, out of this new separation of functions arose the general issue of employers *versus* employed. These latter began rapidly to group themselves into trade societies as from the opening of the eighteenth century, and thus Trade Unionism is several decades older than the Industrial Revolution and the Factory System themselves.

As the eighteenth century ended, the watchful eye and the reproachful pen of Adam Smith, the muezzin of Individualism, could note that "the people of the same trade seldom meet together, even for merriment or diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."¹ But, indeed, the Journals of the House of Commons had already long abounded during the eighteenth century with petitions and counter-petitions regarding the alarming growth of such combinations. The Statute Book, too, was already filling with Acts against combination in particular industries, all culminating in the Act of 1799, forbidding all combinations whatsoever. The modern phase of the Economic War may be dated from that time.

From this year forth a great conflict lasted in full force, and was waged with remarkable bitterness up to about the year 1850. Although that

¹ *Wealth of Nations*, 1863 Edition, Book I, Chapter X, p. 59.

period was marked with signal victories for Trade Unionism in the repeal of the Combination Laws in 1824 and in the establishment of the right of Collective Bargaining conceded by the Act of 1825, it may be said of that period of half a century that Trade Unionism did not make good, in any real sense of the word. The reasons for this were manifold and cumulative. It was partly that the great rise of prices and the consequent misery disabled the manual workers from providing the requisite funds for organisation. It was partly that they could not obtain representation in Parliament. It was partly that they themselves, in that era which in its early part can only be compared for economic convulsions with the sixteenth century or with our own days, were too often led by violent or visionary men, of mentality and outlook alien to their own. It was partly that the very imperfect evolution of the Factory System placed corresponding difficulties in the way of the organisation of the workers. However all that may be analysed, the Economic War went decidedly against Trade Unionism in the early half of the century.

Nevertheless, about the year 1845 came a new turn of the wheel; fresh and more practical ideas began to animate the leaders of the industrial army. This was that "new spirit which, by 1850, was dominating the Trade Union world."¹

¹ Sidney and Beatrice Webb, *The History of Trade Unionism*, 1902 Edition, p. 185.

More exactly, the true initial date for this new spirit was 1845, when the National Association of United Trades for the Protection of Labour was formed. It was based, significantly enough, as its rules inform us, "upon two great facts: first, that the industrial classes do not receive a fair day's wage for a fair day's labour; and secondly, that, for some years past, their endeavour to obtain this has, with few exceptions, been unsuccessful." The adoption of the new spirit signified that the aggressive policy and ambitious aims of the past were to be relinquished in favour of practical objects. "Strikes were deprecated, and the idea of a general cessation of work was entirely abandoned."¹ Funds began to be assembled, and with funds came stable organisation and expert officialdom. So, side by side with the industrial battles still waged from 1850 onward, we must note a tendency which was to remain in force in spite of other developments.

The next epoch of Trade Unionism ran from about 1850 to about 1890. During this period, though the movement won certain important successes in procuring the statutes of 1871 and 1875, which granted complete legalisation, the new spirit of 1850 did not cut the anticipated ice. Irresolution undermined the strength of the battalions of Labour: it was a season, for them, of acute dissensions, of sharp, many-

¹ Sidney and Beatrice Webb, *The History of Trade Unionism*, 1902 Edition, p. 172.

sided controversies, of much tactics and little strategy, and of many victories without victory. Was Trade Unionism to lapse into an attenuated Friendly-Society Unionism? Was it to squander its forces on petty outpost affairs on Municipal bodies? Was its gravamen to be Gas and Water? Was it to become combative or quiescent? Was it to be a time of isolated risings for sectional rates of pay? All these views jostled each other; none was wholly accepted; uncertainty reigned. Therefore Trade Unionism began to be characterised by "the absence of any fixed or consistent idea of the collective interest of the wage-earning class"; by "complacent quietism"; by "extreme and complicated sectionalism"; by "an ever more colourless" policy; by "inconsistent opportunism."¹ So the authors of the *History of Trade Unionism* up to 1901 justly aver.

And then, after so many years of vague, indeterminate leadership, a fresh formula, a clear-cut, point-blank definition, a new economic creed, suddenly forced its way to the front, found acceptance about 1890, put life into everyone, and quite conquered the Labour world. The State should own and manage "all the means of Production, Distribution, and Exchange." Thus armed and exhilarated, Labour stepped forth from the darkness of Individualism into the luminous dawn of Collectivism—the dawn that promised, at any rate, to be so luminous.

¹ Sidney and Beatrice Webb, *The History of Trade Unionism*, 1902 Edition, pp. 281, 344-5, 355, 361, 374, 383, etc.

It must for ever be a matter of speculation as to how this transformation came about. Was it a gift from America, with the *Progress and Poverty* of Henry George? Or was it Webbian and Fabian? Or was it of Shavian birth, from Ireland? Or could it be traced to Germany and Karl Marx? Or did it emanate from no terrestrial source, but from the ethereal Ruskin, the love-lorn nightingale of British Economics?

Whatever the true explanation of its origin, the Collectivist Socialist apothegm was of wondrous cohesive potency. It was an infinitely serviceable cry in the Economic War of years current and to come. More than the slogan "Workers of the World, unite!" of Karl Marx, did it appeal to our workers. For, though they responded to the Marxian battle-cry, liking it well enough for its Teutonic ring, they could not help noticing that Marx forebore to instruct them precisely as to the line to be adopted, once unity had been attained; whereas the new formula of Socialism wore the air of a definite marching instruction included among the orders of the day.

It is certain that no more stirring and effective appeal has ever been found for the long engagements between Capital and Labour in this country. This was so not merely because its sweeping phrase proved so popular at public meetings, but also because it prescribed a policy which, if carried out, would really and literally wipe Capitalism clean off the economic slate. How could

Capitalism possibly exist at all, if all the means of Production, of Distribution, and of Exchange were a function of the State? Thus the policy was tremendously thorough, and, if the phrase may be allowed, really revolutionary, in the sense of creating an absolutely new order of things.

Yet somehow, as the swift years passed onward from 1890 to Armageddon, the cry of "All the means of Production, Distribution, and Exchange" began to falter perceptibly, to lose its popular appeal, and to become stale in the mouths of men. The magic phrase still figured on all programmes; it still commanded salvoes of enthusiasm; it still fertilised perorations. Nevertheless, whether it was that it had originated in Georgian America, or in Shavian Ireland, or in Marxian Germany, and was thus an alien and a suspect, people began to be a little restive about it, to smile and even to sneer—nay, to shrug their shoulders when the time-worn formula cropped up. In the jargon of theatrical criticism, it began to "date."

To judge from the official returns of the Board of Trade, the British people at large did not enrol under the banner of militancy in the numbers wished. Even as recently as the opening decade of the twentieth century the Board of Trade estimated that, omitting women in all cases, only one in five of those engaged in building, only one in four of those in metal work, engineering and shipbuilding, only one in two in the textile trades, only one in five in clothing, only one in four in railways—were Unionists. In

mining and in quarrying, on the other hand, 70 per cent. were Unionists, but then, again, agriculture and other industries were in reality scarcely organised at all.¹

Thus throughout the industrial host there existed great inequalities in the strength of the battalions of Labour. Unionism was strong in relatively few industries, and prior to the War its official numbers fluctuated about the range of 3 million. The miners themselves did not create a national organisation until 1908, while the railwaymen did not attain unity until 1912, or secure recognition from the companies until 1913. Even to-day the total number of those who are members of Trade Unions is under 4 million persons. Our total 'occupied' population, numbering some 20 million persons, is not overwhelmingly won to militancy in the Economic War against Capital.² Probably, however, only about 16 million of the above 20 million could be Trade Unionists in any case.

There was a profound reason for this relative indisposition upon the part of the manual workers, a reason which must be sought in Economics. For from about 1896 onwards an economic factor had begun to come into play which was operating to turn the minds of Labour into a new channel, with the effect of rendering them less susceptible to theoretic axioms.

¹ Royal Commission on Poor Laws, Appendix, Vol. IX, p. 637b.

² Cf. Report of Chief Registrar of Friendly Societies, 1930, Part. IV.

In order to understand the nature and bearing of this important factor, we must pause a moment and probe down still deeper than hitherto into the roots of the Economic War.

If we turn our attention to the wage system of this country, we are at once confronted with a mystery which the best economists have not yet resolved. This is partly because that system derives from a past of which there are only imperfect, or unexplored, records; partly because it is of infinite complexity; and partly because it is itself a chameleon of ceaseless change. This uninterrupted metamorphosis which is continually undergone by wages not only renders obscure their original basis, but also confounds the mind who would apprehend their present state. Add to this that, as we know well enough in our day, the rhythm of change in wages is not constant: in some decades we can remark a relative stability, whereas in others the wage level is disturbed by marked and rapid fluctuations. And, to crown all these difficulties, it can be perceived also that such fluctuations derive from causes, some internal, and some external, to industry itself.

In order to make clear these abstract reflections as effectually as possible, let us take the wages of any small business.

The wages of such a business are, to begin with, fixed on a scale of customary amounts. No one, without prolonged research, could conceivably tell on what exact economic calculations they

are based. They have come down from a more or less distant past, and are paid because there is a general tacit understanding, or mutual agreement, that such payments are a fair reward for the work done. Nevertheless, from time to time, owing to the changes in work, themselves perhaps brought about by scientific inventions or by the contrivances of ingenuity, the ratios which these wages bear to each other may vary as between the recipients. This variation may cause friction and may induce adjustment.

Or, again, another cause of friction and consequent adjustment may arise from an alteration in the value of money. This external cause, acting upon the wage level, may very well produce a demand for, let us say, a levelling up of the wages all round, a process actually witnessed in very recent years. Or, lastly, yet another cause of adjustment may conceivably be that some employers may pay on a more generous scale than others, and may thus set a standard to which other businesses are obliged sooner or later to conform.

In this simple instance, only used here for purposes of illustration, one observes two main facts of economic importance: the first, that the wage level in an old-established community, such as our own, starts from a datum line established long ago; and next, that three causes, one of an internal, and two of an external, nature, operate to produce friction and adjustment in what hitherto has been commonly accepted and

acted upon with satisfaction or acquiescence. To quit this narrow illustration, it may be said that these same forces of habit and of change operate in almost precisely the same manner in the gigantic field of modern industry, though with some important addenda.

These addenda are, broadly speaking, of a two-fold character. In domestic industry the service rendered cannot be estimated so closely as an industrial product which is tested by its price. Hence the price received for the latter constantly reacts upon the amount distributable in wages, and next, in industry the scale is so vast that the adjustments called for by changes in the general price level, or by the internal changes in the respective worth of the workers brought about by the march of science, call for a correspondingly stupendous organisation of conciliation or arbitration, to be instituted either by the State or by the particular industries themselves.

Let us apply these general propositions to the concrete case of the period 1890-1914. The bearing of this upon our present argument will be patent without delay.

It may be said of the period 1890-1914 that it was a time when, in industry, the customary and inherited wage level ruled generally. Nevertheless, it was also a time when industry was continuously feeling the intense impact of modern discovery and science, and also of an active and vigilant philanthropy much concerned with sweated wages and so forth. This, however, was

not all, or nearly all. What was much more important in its effect on wages was that, at any rate from 1896 onwards, there was a steady change in the price level. According to the Board of Trade index-number, assuming the basis of 100 for the year 1900, this was 88·2 in 1896. But this rose to a figure as high as 116·5 in 1913. There was thus a rise in prices during that period of about 32 per cent.

Hence arose a result of immediate consequence for our theme. The workers, and indeed all parties, became intensely concerned with the questions of the standard of life, rather than with the abstract theory of "all the means of Production, Distribution and Exchange." For not only science, but also the price level, were constantly at work with their disturbing influences. It was for this reason that theoretic Socialism receded into the background, and that concrete matters regarding wages held the field in its stead. It was the Taff Vale Judgment; it was the Trade Disputes Act of 1906; it was the Trade Boards, Minimum Wage, Act of 1909; it was Insurance, and National Health, and Old Age Pensions—all these constituted the focus of public controversy and contention. And besides, in these years people were busy building up a vast network of conciliation machinery and of collective agreements, the products of collective bargainings, themselves induced by the obscure dissatisfaction experienced by the workers as prosperity reigned.

All this was in mitigation of the Economic War.

That there was serious, and very serious, trouble in industry during this period from 1890 to 1914 is true. The statistics of stoppages mentioned on a previous page have shown it. Yet, after all, though during the twenty years before the War the average number of working days lost was nearly 8 million, this average loss meant, after all, only about one-sixth of 1 per cent. of the working year, or about one-twenty-fourth of the working time lost through unemployment, or one-fifteenth of the time lost through sickness. Thus, as an eminent economist has stated in reference to wages, "before the War we had in this country reached a fair working solution of the problem . . . the basis of order in industry was a system of relatively stable wage standards . . . the maintenance of order on this basis was possible, because economic change was gradual and seldom catastrophic."¹

Then, suddenly, and by a sort of economic miracle, the incredible, the impossible, happened. The dream, which was melting into the night, came true: the formula, which everyone was forsaking, materialised into solid fact. After people had been mechanically repeating for a quarter of a century that the State should acquire "all the means of Production, Distribution and Exchange," the State suddenly accomplished that very thing.

¹ Professor Clay, *op. cit.*, pp. 10-13.

For Armageddon befell, and, with Armageddon, the hitherto modest and retiring State asserted itself as omnipresent and omnipotent. Driven by a dire necessity, and infinitely against its will, it stepped forward in order to appropriate perforce "all the means of Production, Distribution, and Exchange." Then, in that hour, the unsuspected but fundamental economic fact was revealed that "all the means of Production, Distribution, and Exchange" are little other than Man. For it is Man, and not the machine, who is in substance the producer, the distributor, and the exchanger, of wealth. So now, by the most cruel of economic ironies, "the means of Production" found themselves produced as conscripts; "the means of Distribution" were themselves distributed in the trenches; "the means of Exchange" exchanged life for death. Thus, the dream of Socialism had come true, but in this awful circumstance, that the bosom in which men found themselves was the bosom, not of Abraham, but of Moloch.

The compulsion aforesaid, now necessarily resorted to by the State in the direst of national crises, took two forms, one military, on which it is not necessary to make further comment, and the other economic. Let us scrutinise this economic compulsion and its consequences: it is, indeed, indispensable that we should do so.

Since the early days of the Industrial Revolution the State had pursued a consistent policy in regard to wages: it had declined to fix

them. As time went on, however, it had not hesitated to interest itself in the matter, as witness the Conciliation and Arbitration Act of 1896, the Trade Board Act of 1909, the Miners, Minimum Wage, Act of 1912, and so forth, not to mention the later Industrial Courts Act of 1919. Some of these Acts have gone so far as to provide for the institution of a minimum wage, and its enforcement by the State; but the rate itself was always left to be fixed not by the State, but by a body representative of the parties to the wage-contract. This standing policy of the British Government was founded on the conception that, if it fixed rates, it must itself direct industry as well as regulate it. To regulate, but not to direct, industry, was its central policy.

It was presumably in accordance with this policy that, when the War broke out, the State at first attempted to retain this attitude of aloofness, on the theory of "business as usual." This was, unfortunately, a serious error, most dearly to be paid for later. For in those early months a current of economic events was initiated which henceforward could never be wholly controlled. Fixing our eyes solely on the home front, we perceive the following sequence of happenings. First, an immense rise of prices, in accentuation of that rise which had been in process since 1896, caused a corresponding intense pressure for higher wages. Next, a rapid shift of the workers over from the industries rendered superfluous by the War to the industries,

such as those of munitions, which had been rendered indispensable, set up a movement entailing a vast readjustment from production for export to production for home and military consumption. Next, the whole wage system was further upset internally, by the fact that the skilled man, the pivot man of our industrial ascendancy, fell rapidly in the scale of Labour, owing to the advances in the remuneration of women and of unskilled workers, a change induced by the call for mass production, as opposed to the expert work of pre-war days.

We thus perceive a State embarked upon a course unavoidably calculated to upset the whole relation between Capital and Labour, and yet simultaneously declining, at first, to interfere in order to regulate that evil. This evidently was an attitude which could not be maintained, and which was, in fact, gradually abandoned, an abandonment clearly marked in July 1915, the date of the first Munitions of War Act. From that time forward abstention was succeeded by intervention, and intervention, in its turn, grew swiftly into almost complete responsibility. The chief agent of that changed policy was the Committee on Production, which, by the end of the War, had fixed wages in virtue of no less than 3,754 awards.

What bearing has all this on the theme of the Economic War? The primary bearing is that the Economic War was suspended, temporarily, at any rate, so far as it consisted of a war between

Capital and Labour. What took the place of it was a war or, at any rate, a conflict, sometimes of a very bitter character, between Labour and the State. For, step by step, as the State swept away the wage system built up between Capital and Labour in the course of the negotiations of two centuries, Labour, starting from the Engineering Strike on the Clyde in February 1915, reacted as vigorously as the times allowed. Thus there was "a revolutionary change in the relations of the employers and the wage-earners. The conflict of interests, of which strikes are a symptom, was no longer between employer and Labour, but between Labour and the employer's employer, the Government." ¹

It was during this prolonged process that the true nature of the State was driven home into minds which had never hitherto visualised that abstraction. As the fiat of the State went forth, first Whitehall, and then even Downing Street itself, became the focus and the cynosure of the wage-earning population of Britain. Then they learned the disagreeable truth, of which Fabianism had omitted to acquaint them, that, however violently they might object to the decisions of Whitehall, Whitehall was about as far away as the Rocky Mountains. How could the wage-earners bring pressure to bear on Whitehall, or even attempt to cry "Privilege, Privilege," those menacing words which their ancestors had thundered round the coach of Charles the First?

¹ Prof. Clay, *op. cit.*, p. 48.

For in these democratic days there was in Whitehall nothing so definite as the coach of Charles the First to appeal to, unless, indeed, it were the slow coach of Messrs. Dilly and Dally, driven by their loyal henchman, Mr. Tite Barnacle.

And as for Downing Street, the workers found that Downing Street is a cul-de-sac. Or, at any rate, if not a cul-de-sac, Downing Street is a warren of many burrows and bolt-holes, from which sly, whiskered gentry sniff the scent of approaching provincial gunners, and down which these same furred gentry scurry away for safety into invisible official dens.

The final result of all this was that, at the end of the War, the State was only too glad to hand back industry into the hands of Capital and Labour. But the industrial organisation which it handed back was now a disorganisation, most terribly dilapidated.

As regards this last proposition, all the statistics verify and explain it. They show that what the War had meant economically was, for one thing, a gigantic shift over from all industries, and particularly from the export industries, to the special industries on war work. Now this dislocation was an evil of the gravest augury for Great Britain, who had been increasingly organising her energies during five centuries for an end precisely the opposite. For Great Britain before the War was a country which, after a prolonged apprenticeship, was catering for a world which, as it advanced in civilisation,

desired ever finer products, and had been trained by Great Britain to desire them.

And next, the statistics demonstrate that the War had meant an almost inextricable dislocation in the wage levels, not only of the workers *inter se* in any single industry, but also in the wage levels of whole industries *inter se*.

Then, too, the War had meant, and was to mean, the most immense post-war fluctuations in the price level which the world has ever witnessed in so short a space. A real economic earthquake. Reference to the index-numbers of wholesale prices acquaints us that, taking the pre-war level as 100 in 1914, this had risen to no less than 295 for the average of the year 1920, only to fall catastrophically down to about 111 to-day.

Lastly—most cruel fact of all—the State had lost the flower of the British people.

It was in these circumstances that a decision of the first importance had to be taken by Capital, and equally by Labour.

The issue which now presented itself alike to Capital and to Labour was inevitably viewed by each from a different angle, but was fundamentally one. On its solution was destined to turn the whole economic future of the British race. Was Britain, with her lost markets, with her impaired industrial skill, with her staggering indebtedness, with her best sons mouldering afar, to retreat and accept the situation, in the sense of lowering the quality of her production, and of the standard of life corresponding thereto?

There were powerful inducements for such a policy. Let us state them in turn from the point of view of Capital and of Labour.

From the point of view of Capital, it could be argued that the depreciation of the currency in respect to gold which followed the War, and which by 1920 had attained 34 per cent., should be accepted and standardised. By adopting that action a great alleviation could be procured in the wages bill; for, since wages were relatively stable and hard to move, clearly, to discharge them in a depreciated currency would, in that ratio, lighten the burden of Capital, and would also, in the same ratio, increase the competitive power of our export trade. But Capital, though with many justifiable misgivings, determined to accept the full return to the old Gold Standard, as more honourable a course with regard to Labour, and as more consonant with the immaculate traditions of the City of London and of Britain herself.

Besides this, in another direction, how should Capital face the problem of the settlement of the, so-called, American Debt? Was that debt a real one? The Memorandum issued at the close of 1926 by the Faculty of Political Science of Columbia University under the auspices of President Nicholas Murray Butler has, with its inexorable logic and its impeccable statement of equity, answered, No! "It is clear that these advances were not regarded by those who voted them as business transactions, but rather as joint

contributions to a common cause. The credits were freely given because they were to secure for us effective support for our own efforts." A lofty and convincing ratiocination.

Nevertheless, here again Great Britain adopted the grand line. To an amazed America she pledged herself to pay over a term of years the sum of £2,222 million, a total composed of £920 million in respect of capital and of £1,302 million in respect of interest. However much we may applaud or condemn that arrangement, the conclusion to be drawn from it—that it represented our inflexible determination to live up to our obligations and not to back away from any pledge wrung from us in a moment of crisis—is self-evident.

Besides these evidences of the disposition of Capital after the War, a third must be noted, of the first importance for our present argument. Capital can surely be credited in these post-war years with an effort to strain every nerve in order to mollify the old feelings of Labour against it by adopting the practical measure of paying the utmost possible in wages. According to every economic theory on the subject of wages, one would have supposed that, with the immense destruction of capital entailed by the War, and with the inevitable deterioration of our workers in skill and experience, there should have been a fall in wages. Nevertheless, it is remarkable to read in the official organ of the Ministry of Labour, sixteen years after the outbreak of

Armageddon, that "it is evident that a substantial, if not the larger proportion, of wage-earners in this country are enjoying higher real wages than in 1914." ¹

If this be so, it must seem difficult for us to accept as accurate the denunciations of Capital quoted in preceding chapters, and equally difficult for us to believe that the wage-earners in question can accept those denunciations at their face value.

Let us now turn to observe the corresponding policy of Labour during the same post-war epoch.

The first fundamental issue presented to Labour has been whether it should adhere to the formula of Socialism or not. The formula of Socialism is, as already pointed out, so drastic as to be, in strict essence and literal interpretation, revolutionary in the sense that it is destructive of Capital.

But, in this case, there was the War experience of the nation to guide Labour, with all the ominous warnings of that history. Accordingly, it is to be noticed that, in the important manifesto entitled *How to Deal with Unemployment*, officially issued by the Labour Party in 1929, it is stated in the preface that "Labour asks for power to take in hand the proper utilisation of our resources and possibilities, and to revive the flagging spirits of the workers by return to normal wage-earning employment." If we study the list of reforms adumbrated in accordance with this announce-

¹ Issue of March 1st, 1930.

ment, we notice that these consist of twenty important items.

These twenty items deal with: (1) school-leaving age; (2) adequate pensions; (3) new houses; (4) electricity; (5) new roads; (6) afforestation; (7) improvement of agriculture; (8) re-organisation of the coal industry "under public ownership and control"; (9) a Royal Commission on cotton, iron and steel; (10) control of the Bank of England; (11) guidance of new capital into the most advantageous enterprises; (12) a National Employment and Development Board, and a National Economic Council; (13) removal from the Local Authorities of the entire burden of maintaining the unemployed; (14) proper maintenance of the unemployed; (15) large-scale industrial training; (16) plans of transference and migration; (17) ratification of the Washington Hours Convention, enforcing a maximum forty-eight hours week; (18) advocacy of lower European tariff barriers as recommended by the International Economic Conference of 1927; (19) re-opening trade with Russia; (20) support for League of Nations as an effective instrument of disarmament and peace.

We observe that in this list of twenty reforms there is no recommendation of Socialism, using that term in its strict economic sense, either generally or specifically, with the exception of (8), where the public ownership of the coal industry is recommended, though even this policy has since then not been followed in the

recent Coal Mines Act of 1930. This Act recognises the Mining Association as the organ of Capital, and the Miners' Federation as the organ of Labour. A new departure.

It is, of course, not to be assumed that Labour will forego attempts at nationalisation in this and that case. Nevertheless, it may be said with some confidence that, after the altogether disastrous experience of what State ownership of Labour involved during the War, the working classes of this country will not be persuaded to submit themselves again to that particular yoke.

Besides all this, Labour has also stood since the War for the principles embraced also by Capital, as already mentioned, in regard to the maintenance of the British traditions of production.

Since the War the second fundamental issue presented to Labour has been as to whether it would maintain, at the price of widespread unemployment, that standard of life which it has always sought to secure. Should it insist on a high wage level accompanied by unemployment, or should it resign itself to a falling wage level and thus avert unemployment, at any rate on the gigantic scale which has resulted, at the price of a deterioration in the standard of life? Labour has remained firmly resolved on the former policy, thus pursuing a course parallel to that of Capital in this regard. For in *Labour and the Nation* we read that "the Labour Party holds that to attempt to cheapen production by attacking the standard of life is not only socially

disastrous, but highly injurious to the economic prosperity of the whole community. To attempt to compete by following the downward path of lower wages and longer hours is to take the first steps down a slippery slope at the bottom of which lies universal ruin."

This policy may have been right or wrong, but, in any case, the adoption of it implies a determination by Labour in the same direction as that already exhibited by Capital.

Lastly, there is a force, even more powerful than those named above, which is influencing Labour, even amidst its many parliamentary and industrial battles with Capital, not to break with Capital, after all. This is a force which has not yet been mentioned in these pages. It is the steady, and even rapid, acquisition by Labour of wealth itself. In the measure that Labour acquires wealth itself, the tension between Labour and Capital, and the historic Economic War between them proportionately abates.

It will be remembered that in previous chapters considerable emphasis has been laid upon the inequality of wealth in this country, as a main cause of the Economic War, a contention supported by ample figures. But it is important also to realise that such arguments are apt to embody a fallacy, or, at any rate, an exaggeration. By drawing an arbitrary line at an arbitrary point, you may range things into divisions out of accord with reality: you may disentangle too cunningly the woven web of life.

For the fact is that even statisticians are sometimes rhetoricians also. There are innuendos even in index-numbers; and even algebra may conceal an animus. Plato himself, who, over the doors of his Academy, inscribed "Nothing doing without Mathematics," was human enough to enjoy his paradox and his prejudice, too.

Warned by these precautions, we may notice that, in the endless flow and ebb of economic life, the concentration of wealth in this country has, as it were, set up its own reaction. Since the middle decades of the nineteenth century there has been in operation a diffusion of wealth among all classes of the community, which has been surging up definitely in the last decade or so. But before we investigate this movement, which must have such serious importance for our argument, let us step back a moment so as to be clear as to what wealth is nowadays. For wealth has been changing its nature recently.

Without attempting to offer an abstract definition of wealth, and in avoidance of an interminable verbal controversy, itself often hinging on axioms which are quite out of date, let us compare, concretely, what wealth was at the opening of the Industrial Revolution with what it is to-day.

At about the date of the Industrial Revolution, wealth, which was relatively more widely diffused than at present, was not only on a far smaller scale, but was also very different in character. The property left by persons at death would, in

those days, be principally land, together with houses and business premises; then a share in the tiny businesses, almost all of which were of a personal character in the sense of being conducted by their owners; and then a fractional holding in Government Debt.

If we now inquire as to what the property is which passes nowadays at death, we perceive an immense change. In the latest year, ending in 1929, under review by the Commissioners of Inland Revenue in their Annual Report, no less than £524 million passed at death. Of this gigantic sum only 3·78 per cent. was land. Add house property and business premises 11·96 per cent. Total 15·74 per cent.

In contrast with the above figure, no less than 62·34 per cent. was in securities, such as stocks and shares, or, if we add other items, say nearly 65 per cent. The remaining 20 per cent., or thereabouts, of property passing was in cash, or trade assets, or household goods, or insurance policies, etc.

Thus modern wealth, to the extent of about 65 per cent. at any rate, is now composed of contractual rights to money payments. It is a charge on industry after industry has paid itself.

We thus further perceive that, though wealth may have been concentrated remarkably during the years from the Industrial Revolution until now, it has also been, if the phrase may be allowed, volatilised. It has been, as it were, made public, and so open for anyone to acquire,

even though hitherto, owing to the stupendously swift multiplication of our people, they may not have been in a position to acquire it on a proportionately great scale. And this is a fact rarely noticed, but of commanding importance, especially for our present theme. For it is clear that, whereas in old days, and even in days fairly recent, wealth as fixed in land and in private businesses was exceedingly difficult to transfer or acquire, it has now been made readily available in these respects for the public. Wealth, once a solid, is now a gas, an element, bad or good, to be imbibed by all.

Indispensable, imponderable Wealth ! Our rainbow ! Our Ariel !

This same evolution can be well observed in regard to land itself. Land, too, has been volatilised. By recent legislation, though it has not been re-distributed, it has been made eminently capable of re-distribution. Can we not point, for instance, to that immense series of statutes concerning the acquisition of land for public purposes, which commenced with the Lands' Clauses Acts passed in 1845 by the Government of Sir Robert Peel, and culminating in the Acquisition of Land, Compulsory Purchase, Act of 1919, which generalised the methods of acquiring land compulsorily for public purposes ?

Between these two Acts, and following them up to the present date, consider all that vast series of statutes which enable all the land to be acquired which can conceivably be wanted for public

use—Public Health Acts, Housing Acts, Town Planning Acts, Small Holdings Acts, and so forth. For instance, the Electricity Supply Act of 1926, which instituted the Central Electricity Board, declares (Section 21) that “the Board may acquire lands or any easement or servitude or other right, in or over land, by agreement, or may be authorised to acquire land or any such right compulsorily for the purpose of these powers and duties under the Act. . . .”

So that we have already travelled far in the direction of controlling that land monopoly, which has been one of the central complaints of the critics of Capitalism.

Perhaps the reason why Wealth has chosen to be so impalpable and evanescent is that, hard pressed in the Economic War, it has desired to seek cover from its enemies for motives of prudence. Or, perhaps again, it is that, actuated by high moral considerations, it has assumed the motto of the philosophic Spinoza : *Ama Nesciri !* Choose to be unknown !

However that may be, the manual workers have begun to take advantage of the new availability of wealth. In order to indicate the extent of this movement, we may present an estimate of what they hold to-day. The deposits in the Post Office Savings Banks amount to about £285 million, and increase at the rate of about £4 million a year. The similar figure in the Trustee Savings Banks is about £130 million, increasing at the rate of about £5 million a year.

Next come the Railway Savings Banks, with £19 million; the Scotch Savings Banks, with £7 million; the Birmingham Municipal Bank, with £10 million; the Yorkshire Penny Bank, with £29 millions; the Savings Banks' department of the Joint Stock Banks, with unknown deposits; and the Savings organisations run by numerous businesses, about £5 million. The annual increase in this group is to be estimated at £12 million to £13 million.

Then there are the accumulated resources of the Building Societies, whose growth since the War has been so phenomenal. These funds totalled fairly recently no less than £300 million, compared with only £77 million as recently as 1919; they may be estimated to be increasing at the rate of £30 million a year. Following on this are the holdings of National Savings Certificates. An expert Committee has reported recently that the total net amount of them outstanding is about £480 million, and that above one-half of this is held by really small investors.

Next come the investments of the workers in Life Assurance Policies. No figure exists of the amount thus invested by them by way of industrial or ordinary insurance. But it is probably about £500 million, with an annual increase of about £25 million.

It is also known that the quite small investor commits some of his savings to the Stock Exchange. These, apart from the securities already counted on the registers of the Savings Banks,

are calculated to amount to about £500 million, or even to £750 million, and to increase at the rate of about £20 million to £40 million a year.

Add to this the Co-operative Movement assets, estimated at £160 million, and increasing at the rate of £10 million a year; the funds of the Friendly Societies, which approach £100 million a year; the contributory Superannuation funds of the Trade Unions, and the innumerable small funds of Societies for the encouragement of saving in its subsidiary forms.

In sum, the resources standing to the credit of the small investors of this country may be put at something between £2,450 million and £2,720 million.

How does this compare with the total accumulated wealth of Great Britain? It is generally believed that the total falls somewhere between £20,000 million and £25,000 million. If so, then the share of the small investors is somewhere between 10 and 14 per cent. of the whole. And this sum is increasing at the rate of between £110 million and £130 million a year.¹

A further deduction can be drawn from these figures. If the whole savings of the nation are estimated for 1929 at £550 million, then it seems that the small investors contribute something in the nature of one quarter of the new savings of the nation. It follows that the ratio of present-time savings of the workers is greater than

¹ These facts are summarised from an article in the *Westminster Bank Review*, No. 196, June, 1930. See also Hargreaves Parkinson, *The Small Investor*.

that of their past accumulations. It also follows that Labour must be saving at a greater relative rate than it has done in the past, as it is known that the rate of the total savings of the nation has fallen. Hence we may draw the ultimate conclusion that Labour has a rapidly increasing interest in the survival and stability of Capital—a fact to be noted as tending to reconciliation between the two parties.

Enough has now been said to support the argument that, as time has proceeded, the combined forces of Economic Theory, of Taxation, of Social Provision and, finally, the new, but fundamental, interests of Organised Labour itself—all these elements are in active operation to cut away the roots of those grievances which Labour has historically entertained against Capital. For, during a long period of years, not only have all political Parties combined, in their different measures, to pursue the policy of redressing the economic balance so gravely disturbed by the Industrial Revolution, but also Labour itself is becoming increasingly possessed of a huge stake in Capitalism, which it never had before. The irresistible conclusion follows from this that, though the Economic War, in the sense of Capital *versus* Labour, will produce many severe encounters yet, will animate many programmes, and will call for many difficult adjustments of that wage question so profoundly upset in the War of 1914–18—it may nevertheless be reckoned that the Economic War, in that phase thereof, is a

declining factor of disturbance in our national life.

And then, even as one reaches this conclusion and gazes into the turbid economic stream with renewed hope of harmony instead of hatred, of compact instead of impact, between its living forces, a tremendous factor, hitherto unnoticed in these pages, forces itself upon us and forbids optimism anew.

CHAPTER VIII

THE WIDENING WAR

THE preceding seven chapters have been occupied, primarily, with an analysis of the causes of the historic quarrel between Capital and Labour. These were traced to that concentration of wealth and power which has been so marked a feature of our economic life, especially since the days of the Industrial Revolution. But it was further argued that, owing to the fourfold action of Economic Theory, of Taxation, of Social Provision, and of Organised Labour, these causes of antagonism tend to be allayed, so that we may anticipate a decline of the Economic War, in that phase of it.

It was, however, also stated in the closing paragraph of the last chapter that another issue now forces itself upon us of a more momentous character and of a wider scope. This is the issue of Labour against Labour.

In so writing I have before me a paragraph of the daily Press, which illustrates my meaning, although it does not happen to apply to ourselves. In 1930 the lace- and tulle-makers of the United States determined to insert into the Tariff Bill, submitted to Congress and since passed into law, a clause tantamount to excluding from the United States the lace and tulle manufactured

at Calais. For these latter workers such a proposal spells ruin, and, naturally enough, "a pall of pessimism" hangs over the district, the looms lying idle at the very suggestion of it. "The livelihood of something like 50,000 lace- and tulle-makers is threatened," and all are haunted by "the nightmare of ruin." "A lace-maker who had been out of work for some time attempted to commit suicide yesterday."¹

In the midst of this scene a blessed rumour spreads that the measure, after all, will not pass through Congress. The fiscal rope is unwound from the necks of the worthy burghers of Calais, and "Calais smiles again," with rather a wry face, one fears.

This simple illustration, which need not further detain us, transports us from the battlefield where Capital has so long fought Labour, into that new battlefield where Labour fights Labour to-day. A population of unsuspecting workers in a French town, whose livelihood consists in catering for a distant market, are suddenly smitten with the threat of ruin, a threat arising, not from any difference with their capitalist employers, but from the legislative log rolling exercised, or exercisable, by rival lace- and tulle-makers in another hemisphere.

Leaving the lace- and tulle-makers of Calais to settle their American hash, let us look at the same thing as it impinges upon us on a gigantic scale.

¹ *Daily Telegraph*, April 19th, 1930.

Consider, first, the existing situation of "the greatest of all British industries," as Agriculture is generally described, even by economists. Unfortunately, the latest official return no longer authorises the use of this agreeable epithet, which has so often rolled off the tongues of our ancestors, and of ourselves too, at County Shows and market ordinaries. For, whereas agriculture and horticulture occupied 1,400,000 persons in 1908, nowadays only 1,280,000 persons are thus engaged.¹ The fact is that, in the value of its output, in the employment which it affords, and in its produce per head of persons engaged in it, British agriculture is not holding its own. In regard to the numbers employed, it has to-day declined from the first to the third place among our industries, and it is at present only fourth in respect of output. These are facts without parallel in the entire range of our economic history.

In this connection there was held the other day at Cambridge what was probably the greatest joint demonstration of farmers and farm workers ever known in this country. It was organised jointly by the National Farmers Union and by the agricultural section of the Transport and General Workers Union. The President of the Land Union was in the chair. A Labour M.P. of the Workers Union moved the resolution, which was seconded by the President of the

¹ *The Agricultural Output and the Food Supplies of Great Britain*, February 1930, published by the Ministry of Agriculture.

National Farmers Union. The attendance was on an unique scale, and banners indignantly inscribed, "Needed 1914-1918, Neglected 1930," were everywhere displayed. On all hands bankruptcy for "the greatest of all British industries" was foreshadowed as imminent. The resolution was unanimously passed affirming that "this mass meeting, representing all sections of the industry, views with the utmost concern the present position in agriculture, the increase in unemployment among agricultural workers, the amount of land going out of cultivation, and the lack of confidence created thereby." It recommended that "measures should be taken to assure to farmers a remunerative price for cereals." Otherwise, "nothing but calamity faces the industry."

The fact is, the chairman explained, that "hundreds of thousands of acres, which could be growing good food, are going out of cultivation or are only partly cultivated; and that we are importing large quantities of foreign food that might be grown at home." He added that a heavy burden of costs had been placed on the agricultural industry, a large proportion of which arose from the living wage which had to be paid to the land-workers. The men deserved that wage, and there was not a farmer who grudged the wages he paid; but money must be received before it could be paid out. The prices obtained were not national prices based on national costs: they were international prices based on lower

costs of production abroad, where wages were lower, hours were longer, and where they were supported by subsidies and bounties paid by foreign Governments. We have the best market in the world, and were handing it over to the foreigner. To all this sombre argumentation the great meeting shouted an unanimous and emphatic "Yes."

These views were reinforced by the representative of the Workers Union. He stigmatised the foreign competition as being "of the most unfair and most outrageous character." Millions of hundredweights of cereals were coming in at less than the cost price of production in the countries abroad, so that no industry in such a position could survive for twelve months. It would be a national disgrace if the condition of agriculture were to deteriorate, and if the standard of life of the agricultural workers were allowed to go down.

By a singular coincidence there was published, on the same day as the account of this meeting at Cambridge, an account of the agricultural crisis in Russia. In order to meet the desperate situation there, agriculturalists are to undergo "complete militarisation." On the "collective" farms the workers are to be organised into "horse brigades" and "oxen brigades," all under discipline. No one in an oxen, or a horse, brigade, or in any brigade at all, is to be paid the same wages as anyone else, for all payments are to be strictly according to work done. The

labourer who does not work well is to be fined heavily, and is not to be paid more than 60 per cent. of his wages, in any case, the balance being retained by the officials of the "collective" farms. A bewildering amalgam of extreme individualism, for there is not even a minimum wage allotted, and of extreme regimentation. The report concludes by saying that "great numbers of peasants are attempting to escape from Russia," so that it is presumably not from this quarter that any surplus can be arriving, as it used to in old days, to undercut our agriculturalists.

If we proceed to ask whence these blows do descend upon us, we must have resort to official statistics. The latest figures permit us to observe that, comparing pre-war and post-war times, our people consume more per head than they did. There is a growing demand for foodstuffs, especially for such luxuries as sugar and fruit.¹ In fact, there is "a rise in the standard of living," taking things all round. How confusing that in these ruinous times we should also be better off!

But this does not answer our question as to who those are who so decimate our agriculture. For this purpose our total overseas food supply must be analysed into two divisions. First, the foodstuffs normally produced in Great Britain; and next, the foodstuffs not normally so produced.

¹ Cf. Table in the *Agricultural Output of Food Supplies of Great Britain*, February 1930.

Clearly, the latter category need not detain us, because its items do not enter into competition with our agriculturalists.

Confining ourselves, then, exclusively to the sources of our food supply in those classes of food normally produced in Great Britain, we find that 45 per cent. of them are produced at home. It is evidently on the balance of 55 per cent. that we must fix our eyes, for it is this balance which is, so to speak, the villain of the rural piece. Analysing this balance, we find that, in these post-war years, about 21 per cent. of it is coming from the Empire, and 34 per cent. of it from foreign countries.

But let us examine these figures a little more closely. It is wheat from abroad which is the most formidable of competitors in our market. In the case of wheat we are importing an average of 104 million cwts. annually. Of this total about 51 million cwts. come from the Empire, or do so on the average of recent years, while 53 million cwts. come similarly from foreign countries.

Now, every sensible and impartial person must be ready and anxious to assist our agriculture in its distress. It has to be realised, at the same time, that an important part of the foodstuffs coming from abroad, which do the mischief to our agriculturalists, is Imperial in origin, a trade which we are all very anxious, generally speaking, to foster.

However all that may be, this chapter is

not concerned with anything wider than the ascertainment of the precise nature of the Economic War in its future phase. Suffice it, then, that it is only too evident that in agriculture the conflict is no longer between the landlord and the tenant, or between both these classes, on the one hand, and the labourer, on the other. The strife has turned outwards, passing from a national, to an international, phase. Capital and Labour cheer each other at Cambridge. The National Farmers Union is arm-in-arm with the Workers Union, the resolution proposed by the one is seconded by the other, and all alike, owners and workers, endorse it unanimously. The real economic rivalry is felt by all to proceed from the growers abroad, whether they be, in large measure, our Empire brethren, or whether they be, also in large measure, foreigners. Once more, the issue is not of Capital *versus* Labour, but is that of Labour *versus* Labour, or, more exactly, of Capital plus Labour *versus* Capital plus Labour.

Since the Economic War is contested on a somewhat different terrain in the case of each industry, let us proceed from agriculture to look at our greatest exporting industry, our textiles, and particularly at wool. And here it may be thought that, in view of current disputes between Capital and Labour in the wool industry, the Economic War is on the old-fashioned lines in this case. Yet the fundamental fact is otherwise.

In this year 1930 the present Lord Macmillan has reported on a crucial dispute as to wages in the wool industry.¹

It should be mentioned that there is a National Wool Textile Industrial Council composed of representatives both of employers and operatives, established since 1919 for the purpose of negotiating wage agreements. Under it a Court of Investigation was held in 1925, which reported that "the developments of foreign competition in Europe and the Far East" have not advanced far enough for a conclusion to be grounded on them. Evidently, at that date the Court felt that an economic war was developing, of which the tactics were as yet obscure and the features undisclosed. Since then, however, much has been happening: the campaign has been opened, the situation elucidated, and in 1930 a critical hour struck.

As regards the problem of wages, it seems that hourly earnings in wool are much higher in Britain than across the Channel: in France they are only 50 to 60 per cent., in Germany only 70 to 80 per cent., of the scale in force here. Besides this, our British employers, in their desire to do everything possible for the employees, have actually raised wages since the pre-war days to a level no less than 90 per cent. or even 100 per cent. higher than the pre-war basis. "That wages in the wool textile industry have

¹ *Report of a Court of Inquiry, Concerning Wages in the Northern Counties Wool Textile Industry*, Cmd. 3505, 1930.

increased since the pre-war period to a greater extent than the average increase in industry generally, is undeniable."

Lord Macmillan proceeds to observe that, though the industry may not be "bleeding to death," as represented to him, yet "it is impossible to avoid the conclusion that, during the past five years, the financial position of the industry has become progressively worse, and has now reached a critical stage." "The present problem is not how to share out the divisible fund, but how to increase that fund," an observation, incidentally, in accord with the remark made at the close of Chapter I of this book, to the effect that whereas "the old issue hinged on the division of the profits of industry, this other one—*i.e.* that of Labour *versus* Labour—hinges on the question as to whether there are to be any profits at all."

The hard fact is that if we turn to the official statistics of Belgium, Czecho-Slovakia, France, Germany and Italy, the European countries accounting for the great part of the continental trade, and combine them, the total of the wool tissues exported by them in 1924 was 118 million lbs. In 1929 it was 130 million lbs. As regards ourselves, who measure our exports in millions of yards, these have fallen in the same period from 233 to 163 million square yards. A great growth in Europe, a great decline here. For tariffs have hit us hard in Japan and Australia.

What, however, is remarkable—and here we touch upon something very cogent to our theme

—is the outlook and spirit of the parties who appear to argue this case as to wages. There is still sharp opposition between Capital and Labour, truly. But the old antagonism declines in face of the new situation. Indeed, Lord Macmillan expresses his “admiration” for their respective attitudes. “The general tone on both sides was eminently fair . . . the parties were unanimous in recognising the intensity of foreign competition.” Partners in the crisis, they are not out to slay each other now. All that heat about the necessity of a fatal conflict between Capital and Labour, or about the abominations of the capitalistic system, has cooled off. We are in a different world. We have stepped from the national to the international arena, from wrangling over the division of surpluses to an anxious debate as to the prospects of their existence at all.

Let us now extend our view from existing facts as regards our two most ancient industries, which are agriculture and woollens, to that mighty industry of cotton, centred in Lancashire, the giant offspring of the Industrial Revolution.

We are all of us so well aware of the pre-war and post-war history of the cotton industry of Lancashire that it would be superfluous to recite it. Therefore, let me proceed at once to its living situation in this same year 1930, if “living” be the appropriate word in this case. As I write in the close of that year, the state of affairs in Lancashire is nothing less than tragic.

To-day Greater London has an insured population of 2,214,400. Of these 155,780 are unemployed, a percentage of 7·3. Lancashire has an insured population of 1,779,890, of whom 468,710 persons are unemployed, an enormous ratio of 26·3 per cent. In Blackburn, a town with 56,000 insured workers, there is 51·8 per cent. of unemployment. In Burnley, 47,000 unemployed, a ratio of 43·4. The figures are sufficient to convey their own terrible tale of economic woe. These men are sufferers in the Economic War.

In the course of this Spring there was "a storm of protest" evoked in all classes throughout Lancashire. "The Lancashire cotton trade is determined not to take lying down the proposal of the Indian Government to increase the import duty on Lancashire piece goods from 11 to 15 per cent." An influential deputation from Manchester, "representing all sections of the industry," hurries up to London to oppose this proposition. "The general view in the industry is that the higher impost, if allowed to stand, will aim a very serious blow at the Lancashire trade, and will result in a further substantial reduction in the export of piece-goods to India. Since 1913 the exports from Lancashire to that country have declined by over 1,000 million square yards."¹

Here again we have a strong searchlight cast on the Economic War in its latest phase. No

¹ *The Times*, March 3rd, 1930.

issue arises between Capital and Labour, for all classes in Lancashire are jointly concerned, all sections being only too well aware that the dreadful figures of unemployment will rise, if the Indian Government persist in taxing our imports in favour of the Indian mills. Labour here is up against Labour there.

Yet the gravity of the whole situation in the cotton industry is far more serious than even such an incident can reveal. In July 1930 the Economic Advisory Council presents the report of a special Committee on the cotton industry, presided over by the Secretary of State for Home Affairs.¹ It is an important moment. On the eve of the War of 1914 our cotton industry was larger than at any period of its wonderful history, and held an altogether predominant position in the world's markets. In 1913 it exported no less than 7,000,000 thousand linear yards of goods. But by 1929, the last completed year, that total had crumbled to 3,800,000 thousand linear yards, and was rapidly dwindling still. It would be difficult to conceive of a more distressing situation for that magnificent organisation, which over a century and a half ago the grandfather of Sir Robert Peel, the Prime Minister, had started to build up.

The situation itself is only too easy to summarise. The coarse standard lines, constituting so important a part of the trade, have sustained the main losses; the stress of competition is

¹ Cmd. 3615, 1930.

extending to the medium goods; in the high-class specialities, the ultimate stand-by of Lancashire, the attack has started. Where has it come from? Since only about 20 or 25 per cent. of the Lancashire goods are consumed at home, it is only too obvious that it has come from abroad. Since 1913 we have lost nearly 60 per cent. of our trade in British India, for the Indians develop their own trade, and Japan has bitten into us there. Also, we have lost 70 per cent. of our China trade, mainly because Japan has ousted us from that market, and partly because the Chinese have created their own industry. Meanwhile, there are signs that the U.S.A., with its methods of mass production, may soon be entering the field against us everywhere. Thus there is a slide into insolvency. "The continued decline of exports of cotton goods is rapidly extending unemployment, without any accompanying prospect of subsequent improvement by the recovery of trade."¹

The Economic War, last phase, with a vengeance! A battle of the operatives of Lancashire, not *versus* the capitalists of Lancashire, but *versus* dusky races, labouring in remote Continents and across far-flung oceans, against whom able books of economic rhetoric about the crimes of Capitalism have, alas! no possible avail.

Forthwith, in reply to these arguments of the Government Committee, comes an answer from

¹ Report, p. 18.

the special sub-committee of the Federation of Master Cotton Spinners' Associations. They argue that, though the battle is going against them, it is really not their fault. It is a question, mainly, of Labour against Labour. "We have little control over the price unit of labour as it is affected by hours of labour and rates of pay, which is one of the main factors limiting our power to reduce production costs."

The sub-committee enforce their arguments by referring to the effect on their business of the record low level of silver, with its disastrous reactions on trade with India and China. There are longer hours of labour worked in the competing countries. The tariff barriers have been raised against British goods by our Dominions as well as by foreign countries. The burden of taxation is heavier in Great Britain than in any other country in the world, not to mention the fact that there is a huge disparity between manufacturers' prices and retail prices, an influence very adverse, even in the home trade itself, to cotton. "The Federation is of opinion," concludes the report, "that the factors to which we have referred will prevent any rapid recovery in our trade, so long as they remain in their present form." ¹

And then, on the heels of this Report, comes another exhaustive report from Mr. Arno Pearse, the eminent authority on cotton in the Eastern market. Nothing short of a miracle, he thinks,

¹ *The Times*, August 1st, 1930.

will enable Lancashire to recapture lost trade in piece-goods in India. For, it seems, there are mills in India which in output per unit and cost per lb. of yarn equal the best in any part of the world; generally speaking, the technical equipment of the Indian mills is so far advanced that the mill owners are not afraid of our competitive capacity in goods made in yarns up to forties. As for the higher tariff procured this year by the Bombay Mill Owners Association, it may cause Japan to establish mills in India, and thus even accentuate our difficulties. As for wages, the owners have smashed the Indian trade unions, so called, and there is no organisation left in India capable of enforcing a uniform wage list.¹

And, following again upon this, we read in the *Bulletin of the Cotton Trades Statistical Bureau* for July 1930 that the number of operatives now unemployed actually exceeds, on the whole, 40 per cent. of the total insured workers in the industry. British yarn is down to 50 per cent. of full-time output. Nor is much consolation derived from the fact that the international statistics of to-day prove an universal depression in textiles throughout the world. These are the stern facts of these times in which we live, or perhaps even they, too, flatter the situation, as to-day becomes yesterday, and to-day is worse. But then one has to realise that the

¹ Cf. summary of Mr. Arno Pearse's views, *The Economist*, July 26, 1930, p. 172.

casualties are not all on one side. In the United States, for instance, North Carolina, the "leader of the New South," the State that has more cotton mills than any other State in the Union, and boasts that it stands second in the payment of Federal taxes, is sore afflicted too, owing to so-called 'over-production' in the cotton industry. To-day in the County of Gastonia, North Carolina, "there are a hundred cotton mills, but many of them are closed, and the others are running on short time only"; the textile workers "who live at the best of times in miserable conditions" are unemployed; "their lot is pitiable indeed: many are roaming on foot from one district to another in search of work, the parents carrying the household goods with them, a number of poorly-clad, ill-fed children trailing in their wake. Pellagra, a disease caused by under-nourishment, is rampant in many districts."¹

Thus, across the No-man's Land of the ocean, in the industrial trenches opposite to Lancashire, the Economic War of cotton exacts its toll of misery, disease and death.

Let us pass from agriculture and textiles to another vital British industry, Shipping.

It is evident that the prosperity of our shipping must depend to some extent on the world's exchanges, since British ships are part of the great international fleet, at the service of all nations. Nevertheless, that prosperity must depend still

¹ *The Daily Telegraph*, July 29th, 1930.

more upon the specific activity of our own export and import trade. Unfortunately, for the last completed year our exports have reached less than 80 per cent. of what they were before the War, or, put in another way, have fallen over 13 per cent. in respect of their share of world trade.

This is not all. That economic nationalism, which spurs on all nations to conduct every service for themselves and by the agency of their own nationals, applies very markedly to shipping. The consequence is that to-day the tonnage and the movement of ships have increased by 32 per cent., with the result that there is, in shipping, an immense excess of supply over demand, resulting not only in idle tonnage, but also in an equally serious problem, the under-employment of tonnage in movement.

The result of all this widespread resolution to possess ships has been, so the Chamber of Shipping of the United Kingdom declares in its latest Report, that with the Spring of 1929 there began a most serious decline in freights, which up to the end of that year resulted in an immense increase in the amount of net tonnage laid up. So serious, indeed, was the loss involved that by June 1930, apart from the loss of freights, and so forth, the loss of seamen's wages alone is estimated for this country at £725,000 per annum.

In order to appreciate the significance of this movement for ourselves, we must turn to the balance of our imports and exports for any

current year, say, 1929. In that year our visible imports exceeded our visible exports by no less than £382 million. How is this defect in our trade balance currently adjusted? By the agency, as we all know, of our "invisible" exports. To these indispensable invisible exports shipping contributes very considerably by the sale of freight, passenger, mail and other services. In fact, the Board of Trade estimate this contribution made by shipping to be no less a figure than £120 million for 1929. Such is the economic significance for us of the shipping industry.

The shipping industry, however, has been suffering not only from insufficient trade moving in bulk in and out of the ports of this country, not to speak of the ports of the world, but also it has been heavily penalised by a dislocation between its costs and receipts. For shipping is, of all other businesses, 'unsheltered,' *i.e.* exposed to sell its product at international prices, even while operating at home at national costs. In plainer and more concrete terms, at the opening of 1930 the level of the freights receivable by shipping was actually 11 per cent. below that ruling in 1913. Meanwhile, the costs payable by our shipowners were ranging no less than 70 per cent. above pre-war costs. If we analyse this average figure of costs, it appears that among its component items dockers' wages are no less than 140 per cent., and seamen's wages 80 per cent. above the pre-war scale.

The shipping industry illustrates very vividly

one international aspect of the Economic War. The purpose of this business is to provide and sell carrying services, on an element open to all competitors, in a freight market open to all rivals, from British ports freely open to all comers, and without the possibility of State protection. In the words of the Chamber of Shipping submitted to the Committee on Industry and Trade, "shipping is thus exposed to the competition of the world."¹

So, the unhappy ships which decay in harbour and the still more unhappy seamen who can find no work, are alike the victims of the Economic War. Everyone everywhere rushes to build ships, regardless of the economic consequences; freights fall from superfluity of the supply of shipping; the world's mercantile marine is 50 per cent. larger than in 1913; and thus, for the British shipowners, costs soar upwards or are stable, while receipts descend. Meanwhile the whole world is in the same boat, or out of it, with upwards of 5 million tons of shipping laid up.² Once again we find the main tension shifting from the old contest between Capital and Labour to the international field.

Passing from Shipping to our Iron and Steel industries, the same moral appears, on an even more extensive scale.

In this year 1930 the chairman of a great

¹ Committee on Industry and Trade, *Further Factors in Industrial and Commercial Efficiency*, 1928, p. 217.

² Cf. Speech of Chairman of Royal Mail S.P. Company, June 18th, 1930.

metallurgical company, Guest, Keen, and Nettlefolds, at the General Meeting of the Company, informed the public that the miners in their employment are "working splendidly," and "are prepared to give us the most loyal support individually." Also, "we have probably the best blast furnaces in Great Britain, with a very large output and a cheap cost of manufacture. Our iron supply from Spain is entirely satisfactory, and we have satisfactory supplies of South Wales coke and limestone." So far, so good. And then we read on a little anxiously, for there is a 'but' coming. The chairman proceeds to say: "But Indian pig-iron is being sold in South Wales below our cost of manufacture . . . our difficulties would immediately be lessened if the Indian market improved, and they could absorb their own manufacture," but that does not seem likely. "Again, we could sell our own manufactures here, if wages in England came down to the Indian scale; but that seems even less likely, and certainly would not be desirable, since the men would earn less than half the present rate of unemployment pay."¹

These observations of the chairman of this Company introduce us to something which, on its existing scale of magnitude and in its existing degree of intensity, is really new in the world. The old conflict of Capital *versus* Labour is no longer in the centre of the picture: the strife is not now, in this case, at any rate, between

¹ *The Times*, June, 26th, 1930.

employers and employees, for the latter 'work splendidly' and furnish 'most loyal support.' The stress, the acuity, of the issue is really between these worthy operatives of ours and the Indian operatives in another Continent, our fellow subjects, by the way, who apparently make pig-iron and export it across the oceans at a level of price unremunerative to ourselves. Labour in Bombay is plainly at odds with Labour in South Wales. The field widens: it is now international, and national no more.

Turning from Asia to Europe, we find the same metallurgical struggle in full force, with all its ups and downs of victory and defeat, involving profit or deficit, as the case may be, for ourselves *quâ* our European neighbours. Some orders for locomotives are placed; these go to Continental firms and not to our firms, because their tenders are 15 to 20 per cent. below our tenders. The chairman of Armstrong Whitworth Securities Company explains that the lost orders mean that the public has had to pay £184,000 in unemployment relief for those thrown out of work here. And this is not all. If the orders had been allotted to the British firms, our workmen, instead of being unemployed, would have drawn £348,000 in wages, while another £431,000 would have been distributed on the direct labour costs of the material used, a total of £779,000. "Here," exclaimed the chairman, "is a state of affairs definitely uneconomic . . . uneconomic from the point of view of British labour, uneconomic from

the point of view of the shareholders, and un-economic, apparently, from the point of view of the national balance-sheet.”¹ An outpost affair, perhaps; yet costly in its way and deeply significant in its roll of economic casualties.

The chairman of the Consett Iron Company adds his calculations, and enforces arguments to the same effect. In 1913 we imported about $2\frac{1}{4}$ million tons of iron and steel, the maximum ever imported into this country up to that date. But to-day, in 1930, we are importing at the rate of $3\frac{1}{4}$ million tons. Yet, as is well known, our capacity was enormously increased during the War; and, in fact, our steel-making capacity increased during that period by about 50 per cent. If all that imported steel and iron could be made here, contends the chairman, “it would give full-time employment to about 120,000 workmen who are at present living on the dole. And the effect of employing these additional men would be cumulative, because obviously their purchasing power as wage-earners would be much greater than as recipients of the dole, and their increased purchasing power would tend to find employment for others.” What is the explanation of this economic paradox, a paradox all the greater because “the quality of our products in the world’s market remains unquestioned”? It is “not because the plant and the technical skill of the Continental steel-makers are superior to ours.” It is because the

¹ *The Times*, January 12th, 1930.

major part of the total cost of a ton of steel consists of labour costs. But in Germany the wages of the steel trade are 67 per cent. of ours; those in France are 50 per cent.; those in Belgium 47 per cent. And of the total imports of steel, no less than 86 per cent. altogether came from these three peoples.¹

Such is a fair account, I hope, of the representations of these highly qualified and practical authorities. But let us turn to foreign parts, in order to appreciate what we are up against in metallurgical rivalry.

As we are aware, the war deprived France of over 60 per cent. of her steel and iron capacity. Luckily for France! For, after the end of the War, the works were rebuilt and extended on most modern lines by the aid of Government money, while Alsace-Lorraine was restored to France, with all its vast resources in pig-iron, steel and iron ore. Thus France now has excellent modern equipment on a huge scale. Instead of suffering from unemployment, the trouble with France so far has been the shortage of labour, which she has made good by employing to-day no less than 60 per cent. of foreign workers in her metallurgical industries.

Owing largely to this fact of racial intermixture, these workers are not organised in an effective way for collective bargaining. On the scent of any danger of unemployment they can leave for home, or they can take up agricultural work,

¹ *The Times*, June 21st, 1930.

which is always available, as the works are not placed in a Black Country, but in rural districts where there is always work waiting for them. So successful has France been in developing her production that this has actually doubled since 1922 in pig-iron, while her output of steel has nearly doubled too in that time. Her exports of pig-iron and steel have more than doubled in the same period.

During the early months of 1930 an important delegation of our practical men visited France. They found "the most modern plant. The equipment and modernisation of the plant had been carried out mainly by Reparations, assisted by the depreciation of the franc . . . a serious shortage of labour had to be faced. This has been dealt with by a co-ordinated system of importing foreign labour, and such importation still continues. . . . The physique and general appearance of the workers were good, and they were hard at work. An atmosphere seemed to exist of keenness and good relationship among managers and workers. . . . As a result of the War, France has established a great iron and steel industry, is determined to maintain it, and there is marked evidence of intention still further to improve the plant and equipment, and to increase the volume of output." ¹

If we turn from these limited surveys of the Iron and Steel industries and regard the whole

¹ Report of the Delegation, etc., issued June 1930 by the Economic Advisory Council, Cmd. 3601, pp. 10, 11.

matter from the world standpoint, we arrive at some reflections that may surprise us. After the greatest war in history, one might have supposed a shattered or dislocated Robot world. Or, at any rate, one might have supposed a world fallen to a lower level of workmanship. The figures of iron and steel seem to dispose of that hypothesis, casting a valuable ray of light on the truth.

Resorting, then, to the world figures, we ascertain that, whereas in 1913 the tonnage of pig-iron produced in the world exceeded that of steel, nowadays, or at any rate in 1929, the world produces 20 per cent. more steel than pig-iron. Thus quality seems to improve in this item.

The next fact is that the world production of pig-iron, which was 78 million tons in 1913, though outpaced by steel, has immensely increased to 97 million tons, as estimated in 1929, thus attaining a record. But in the case of steel the 75 million tons made in 1913 have swollen to the gigantic figure of nearly 120 million tons, as estimated for 1929. This growth is spread over the world, the world for this analysis being divided into Western Europe, including ourselves, the United States and, finally, the other nations. Under all three headings the totals expand.

And, last and most important of our industries, Coal—coal, the chief source of fuel for those vast pre-war and post-war engagements between Capital and Labour, which now, let us hope, are on the decline.

The extraordinary fact about coal is that, after having been the one industry that suffered most particularly under Government control from the War years up to 1921, then, at the very moment when it was being restored to normal life and breath, it was struck a triple stunning blow. This triple blow was administered to it by oil, by lignite, and by water-power, all of which forces combined together to deprive this monarch of his ancient autocracy. This unexpected fact took by surprise all those who have had to deal with coal, with the result that, to the eye of the impartial observer, Governments with their subsidies, mine-owners with their negations, miners with their impossible schemes, and even Commissions and Committees with their conflicting recommendations, have alike been obliged to acknowledge failure. Witness Durham to-day, and Glamorgan, and Angus, all with very nearly 30 per cent. of unemployed.

Yet coal is still the foundation of our industrial life; it still furnishes, or should furnish, employment to one in ten of all men engaged in large-scale industry; it is incomparably our most valuable raw material. In spite of all this, or perhaps because of this, it has been for decades the chief battle-field in the Economic War in its aspect of Capital *versus* Labour. "The British coal industry has suffered to an unexampled degree from antagonism between the mine-owners and the miners."¹ The dates of 1912, of 1920,

¹ *Britain's Industrial Future*, 1928, p. 343.

of 1921, and of 1926 only too clearly confirm that observation.

Now, however, the combined advance of oil, of lignite, and of water-power has arrived from overseas to enforce upon all concerned the lesson that the trouble in coal is to-day from an international quarter, and that any local disputes must be subject to that over-riding consideration. In old days it appeared that our position was so strong in coal as to permit of Capital and Labour fighting it out without any enormous disaster for the public or for themselves. That supreme fallacy has surely been well-nigh exploded to-day under the instruction of the most cruel experiences.

To view the whole matter from the international standpoint, it would appear from the inquiries of the League of Nations that, at the root of the troubles of this industry, lies the fact of the immense expansion of the capacity for coal production throughout the world, coupled with a marked stagnation in the world demand for that mineral. The impact of this fact upon Great Britain has been direct. Our export of coal, coke, manufactured fuel and bunkers was nearly 100 million tons in 1913. In recent years this has amounted to something in the region of 72 million tons. As the Samuel Commission explained it in the year 1925, "with a stationary demand at home, and a reduced demand abroad, the number of men employed in the coal mines of Great Britain has increased from an average of

1,048,000 in 1909-13 to 1,156,000 in 1925, or by more than 10 per cent.”¹ How could these men, thus more numerous than before, and operating for a diminished demand, hope to retain both employment as well as an enhanced standard of life? In fact, to-day less than 900,000 are employed.

Thus it is from an external, rather than from an internal, cause that the troubles in the industry arise, even as we have noticed in the other industries under examination. In that regard, the words of the Samuel Commission still hold good to-day, with the statement that “the depression in the British coal export trade is, in the main, part of a general depression, affecting almost all European coal-producing countries, an excess of supply over demand caused partly by the impoverishment of customers, partly by the development of new coal-fields, and partly by the increased use of substitutes.”²

A precise confirmation of the argument developed in these pages has been furnished in 1930 by a valuable survey, published by the Statistical Society, of the Present Position of the British Coal Trade.³

While the producing capacity of the British coal industry is said to have increased, since 1913, by over 10 per cent. (*i.e.* to approximately

¹ *Report of the Commission on the Coal Industry, 1925, Vol. I, page 222.*

² *Ibid.*, page 13.

³ Cf. *Journal of the Royal Statistical Society, Vol. XCIII, Part I, 1930, by Professor J. H. Jones, of the University of Leeds.*

330 million tons per annum), the actual output has fallen to approximately 250 million tons. The fall in output is due mainly to a fall in exports. European production in 1928 was approximately the same as in 1913, so that the production of coal on the Continent has increased by approximately the same amount as the output of Great Britain has diminished. The fall in exports is due partly to the collapse of Russia and partly to the growth of Continental production. In some countries, such as Holland, domestic output has increased, and the need for imports has therefore been reduced. German output has suffered through the creation of Poland, and Polish coal is excluded from its former market in Germany. German production of lignite has increased to such an extent that not only has the gap been filled, but German coal has been available for export to Italy and France as part payment of Reparations, and in these markets has injured the export trade of Great Britain. Polish coal has had to seek new markets, which have been found in Denmark and Sweden. Thus the British industry has had to face the competition of Continental industries which have been expanding for political reasons, and in many European markets has had to compete with Continental rivals which are supported by artificial means.

It will have been observed that in this chapter the situation, first, of agriculture, and then of the great export industries, has been examined. From one point of view these industries present

a sharp divergence, in the sense that agriculture does not export. Yet in another view they are similar, in that both are directly subject to all the forces of international competition. The prices which they receive are international prices, in substance.

The consequence is that these industries bear the full brunt of international competition, and their economics must be on that basis. For instance, before the War the Board of Trade calculated that the average weekly wage of all cotton operatives in Lancashire, including those of both sexes, was not more than £1 a week. Such is the reflex action of the poverty-stricken markets abroad in which Lancashire had to sell her goods. The same law holds true to-day in respect of our "unsheltered" industries, with the result that "to ask miners, steel-workers or skilled engineers to accept further reductions, when already their rates are below those of the lower grades of skill in sheltered industries, is to invite opposition."¹

From the preceding paragraph we may gather the further fact that, by a sort of backward ebb, the Economic War, which is waged internationally by our export industries, is in danger of extending at home, not because of its old cause, the antagonism of Capital and Labour, but because of the inequality set up between Labour and Labour inside our gates, an inequality caused by the force of international competition impinging

¹ Professor Clay, *The Post-War Unemployment Problem*, p. 155.

more on the unsheltered than on the sheltered industries.

That this has tended to be so has been established by the inquiries of the Committee on Industry and Trade. Since the War, "the rise in wages has been greater among the sheltered trades than in the great exporting trades. . . . We thus find a marked discrepancy."¹ The importance of this may be judged from the fact that, in the cost accounts of the great exporting trades as a whole, the average proportion borne to total cost by the wages of labour is somewhere in the neighbourhood of 40 per cent. So that wages questions are a possible cause of economic unrest in that proportion throughout those industries.

If all this be so, all the more urgent is it that, in order to allay the risk of such conflicts, we should specially look to the conditions of those industries mentioned in this chapter.

But there is another reason more powerful still, and specially applicable to all our exporting industries. We live by them. As the Committee of Industry and Trade so well says in its Final Report, it is "axiomatic that Great Britain is, and must remain, a country necessarily dependent on overseas supplies for the means of feeding and employing its population." It is "the fundamental fact that the life and means of livelihood of the people of Great Britain are dependent on the maintenance of her exporting

¹ *Further Factors in Industrial and Commercial Efficiency*, p. 11.

power. . . . Probably only about a quarter of our total industrial production is exported overseas. Nevertheless, the whole of our industries, whether making for the home or the overseas market, are alike dependent on the maintenance of our export trade, inasmuch as it is only by successful exportation that necessary supplies of food and materials can be obtained.”¹

It follows irresistibly from what has been set forth in this chapter that the Economic War has passed, in substance, to the international field. So much is this the case that, even when we observe the continuation of industrial domestic strife, it is only too probable that it is not, as it were, native, but that it is the reflex of that international warfare where the Labour forces of the world clash.

Hence the central fact of our situation is that, in the strife of the Economic War, our export industries constitute our Expeditionary Force, whose success is vital to our national well-being, and even to our national existence. If so, then it is the prosperity of those industries in particular which must be our primary concern.

¹ Final Report of the Committee of Industry and Trade, 1929, Cmd. 3282, pp. 10-11.

CHAPTER IX

THE CAMPAIGN OF BRITAIN

IN the preceding chapter it was represented that the Economic War was changing its character into an intense strife between Labour and Labour waged throughout the international field of industry. It is true that in the Manifesto issued in October 1926 by some hundred and fifty leaders in finance and industry in Europe and the United States, including forty-three of our own authorities, it was ably set forth that "trade is not war," and that those engaged in it are all neighbours and friends together, the welfare of others being "a condition of our own well-being." A great truth in its way, admirably formulated also in the Final Report of the World Economic Conference held at Geneva in 1927, which demonstrated that the prosperity of the world is one.

Yet somehow, in the presence of current events, one cannot help applying to this axiom an observation of an American philosopher of the Pragmatic School. Professor William James, confronted with the view that life is such a trumpery affair for us poor atoms as not to be seriously worth a struggle, replied that, indeed, one cannot prove it otherwise; but that, nevertheless, it

feels as though life were “a real fight,” and as though there were something supremely important at stake in it.¹ Similarly, may we not contend that, though “trade is not war,” yet it *feels*, in the present turn of events, most uncommonly like it?

In plain truth, the position adopted by the sages of the Geneva Conference is being modified by the tidal flow of current facts. In old days, and even in days very recent, the axiom “trade is not war” was economically true. It was true because, during the whole course of the nineteenth century, there was that prodigious multiplication of the species—we ourselves multiplied five times—which maintained consumption ahead of production, thus making it easy for all producers alike to beam upon each other.

Nowadays, however, that situation is reversed. Production has jumped ahead of consumption, owing to the stupendous conquests over Nature hourly achieved by Man, Nature’s insurgent son. Most great industries—coal, shipping, cotton, engineering—have to-day perhaps double the capacity for production actually in use, or nearly, or more than, double. It is for this reason that those directing and operating the great businesses of to-day are in ever intenser competition with each other for the patronage of the consuming world.

Take our coal industry. Here is an industry which does not respond to the old economic tests.

¹ *The Will to Believe*, 1909, p. 61.

The President of the Board of Trade assures us that "the demand is not elastic."¹ Supply outstrips demand, and not vice versa. Excluding bunker coal, we were able to sell abroad before the War, say, 87 million tons annually. Not so now. "To-day we are finding it difficult to export more than 50 million to 55 million tons, and the tragedy of that export is that it has been effected on terms of either no return at all or on what is frankly a non-remunerative basis. That is conceded by every authority."²

It is the same with shipping. "There is," reports the Chamber of Shipping, "a great excess of supply over demand."³ The Chairman of Furness Withy & Co. tells his shareholders that between the United Kingdom and the Pacific Coast of the United States there were five regular lines a few years ago: now there are fifteen of them, and one more is being added:⁴ "I can say without fear of contradiction that there is no need for this new service: the services which this new line will perform are already being adequately and efficiently covered." On this assumption all the new capital and labour involved is pure waste.

The United States furnishes corresponding evidence: "The time is gone when the popula-

¹ Hansard, December 17th, 1929, House of Commons, Column 1250.

² *Ibid.*, c. 1252.

³ Annual Report of Chamber of Shipping for 1929. *The Times*, February 20th, 1930.

⁴ Speech of Sir Frederick W. Lewis at General Meeting of the Company, July 23rd, 1930.

tion of the country doubled in each seventy years, when the ranks of potential consumers were swollen by new millions in each twelve months, when the merchant's success could be almost automatic. . . . Competition, in the bitter European sense, is here to stay. Production costs are calculated to the third or fourth decimal point, selling costs are rising to a fantastic height, and the myriad machines of American industry can turn out anywhere from 10 to 40 per cent. more than the people can absorb."¹ And so on throughout the whole vast gamut of modern international industries. As real war is wasteful, so the Economic War is wasteful too.

The same with agriculture. Consider the havoc wrought by too many hogs. "It has long been the curse of the Middle Western States that they produce cattle and hogs, Indian corn and small grain, too easily and too abundantly. The effects of that curse have not been limited to the Middle West itself." It has already "wrecked New England agriculture" and, incidentally, our own. Since 1920 the wise Middle West farmers have emigrated to the towns at the rate of nearly 500,000 a year; and very recently at the rate of 200,000 a year, so that the country may produce less, the towns consume more, and agriculture may be righted. But is agriculture righted? Not at all. Why? Because production only goes on faster year by year. In

¹ *The Times*, April 25th, 1930, from the Washington Correspondent.

1920 farmers had 229,332 tractors; in 1925, 473,850 tractors, and the increase has gone on at the same rate since. "By means of machinery the farmer is multiplying his power many times."¹

The nineteenth century over-produced Man, the consumer. The twentieth century over-produces Machinery, the creator.

The above proposition is true, but, like all economic propositions, only within limits. "Over-production," we are assured by economic science, is impossible, for there are plenty of people always short of the good things of this world and only too ready to take all that can be offered, apart, incidentally, from the obligation of having to pay a fair price for them. Thus, reiterates science, it is not "over-production" but "under-consumption" which is the enemy. Granted, too, within limits.

If so, then we must arrive at the conclusion, which we may take to be the true science of the matter, that both the men of business, who assure us of over-production, and the economists, who assure us of under-consumption, are alike correct. Over-production there is, in the sense of a surplus of unutilised capacity; under-consumption there is, in the sense of vast poverty-stricken or dislocated markets. And finally, to apply this proposition to the parlous state of our export industries, both these adverse factors are in full impact upon them to-day.

So far, we have noticed the two great external

¹ *The Times*, from a correspondent in Iowa, August 7th, 1930.

factors operating against our export industries; there is a third adverse factor to be mentioned, tariffs. For, according to the World Economic Conference, "these are at present one of the chief barriers to trade." ¹

Throughout the world there is an epidemic of economic nationalism which takes this shape. In accordance with the terms of the Peace Treaty, following the War, the number of independent Customs administrations in Central and Eastern Europe has nearly doubled, while that of Russia became nearly prohibitive. The United States in her Tariff Act of 1930 has added nine hundred increases of duties to her list, in rivalry with her own past achievements in that line. Australia and India eagerly follow suit. Even before these latest increases, "the Board of Trade calculation brings out clearly the remarkable fact that the main increases of tariff rates on British exports have been within the British Empire, where the average ad valorem incidence has risen by nearly two-thirds." ²

Let us now take the matter a step further. What practical control have our business men over these three adverse external factors enumerated above?

At first sight, none whatsoever, as the world is at present constituted. As regards over-production, if the world chooses to multiply machines infinitely, who is to say it nay? As regards under-

¹ Final Report of the World Economic Conference, 1927, p. 29.

² *Survey of Overseas Market*, Report by Committee of Industry and Trade, 1926, p. 15.

consumption, the eminent men who have controlled the policy of the City of London in the past have done wonders in fighting the under-consumption of the world. The proof of that is the £4000 million of British capital held by us abroad to-day, a sum devoted, in substance, to building up the consuming capacity of mankind in general. Unfortunately, in this case our power of investment abroad has been grievously curtailed in these post-war years. It is not too much to say that we have reduced by more than one-half the annual credit balance on our total international trade, so far as it was available for investment overseas.

In order to understand this, we must realise that the savings of the country in any current year are applied to three main purposes. They go, in the first place, to the repair and rehabilitation of industry at home; in the second place, to new investment at home; and in the third place, to investment abroad. It is by the agency of investment abroad that under-consumption is fought in foreign markets and that our export trade has been so much fortified for decades past. Prior to the War this net investment abroad averaged, say, £150 million per annum. Nowadays "the net annual outflow of capital is less than £100 million. The shrinkage in the amount of British capital invested annually overseas, which is nearly as great as the whole reduction in our national savings, is intimately connected, whether as cause or effect, or partly as cause and

partly as effect, with the shrinkage of our export trade in the post-war period.”¹

As regards tariffs, we have no control either, as may seem at first sight. Even within the British Empire we are practically powerless to forbid tariffs.

It has thus been shown, so far, in this and the preceding chapters, that our great exporting industries are the really vital ones to be considered, and that these are exposed from without to a triple attack, apart altogether from whatever embarrassments they may be suffering owing to their domestic situation. It is in the face of these conditions that we have to march forth to war, and that the Campaign of Britain must be organised.

It must be said at once that, for the purposes of this campaign, we are exceedingly well found in economic ammunition and armaments. So far as our official services are concerned, we are, it is reported, magnificently organised. It is authoritatively stated by the Committee of Industry and Trade, after a five years' investigation, that “British commercial diplomacy has been greatly improved in recent years,” and that our traders are, “on the whole, more appreciative than critical” as to its merits. Our external business relations are effectively handled, it seems, by the Foreign Office, the Dominions Department, the Colonial Department, the Board

¹ Final Report of Committee of Industry and Trade, 1929, p. 264.

of Trade, the Department of Overseas Trade, and other bodies. The idea that there can be "overlapping" is "not well founded," happily. For in each case the responsible officers are alive to the desirability of "personal contact" with each other. There is, indeed, "a surprising amount of ignorance among the business community" as to the value of these services. But this darkness is being rapidly corrected by the light of better knowledge.

Then we have the Commercial-Diplomatic service, a specialised system of overseas assistance. In the past "British Consular Officers did not display sufficient interest in commercial matters." But now "this spirit has largely disappeared," and they discharge their duty without fail.

Some difficulties, indeed, of a superficial nature tend to arise from the fact that British commercial practices may be subject to occasional changes in a changing world. "It is extraordinarily difficult to induce traders, officials, and, perhaps specially, legal authorities to adapt their minds to this broader point of view," though why the austere brains of legal luminaries should be so particularly difficult to expand is not apparent.

It is further even hinted by the Committee that, as regards British trade interests, "unless each Ambassador or Minister is personally imbued with a real sense of his importance," ill may befall. Fortunately the danger of such

inertia is averted by British Missions who, touring abroad, inoculate energy into our, possibly supine, representatives.

All this panoply of war is immensely strengthened by unofficial volunteers, notably the Association of British Chambers of Commerce, the Chambers comprising over 45,000 members abroad and at home; and, above all, we have the services of the Federation of British Industries, established in 1916 to voice the views and advance the interests of the manufacturers and producers of the land.

Finally, among the last reserves ready to advance at any moment into battle, are a whole corps of experts and economists, ready to sacrifice their time and energies on behalf of the Economic Advisory Committee, the Imperial Economic Committee, the Exports Credits Guarantee Scheme, the British Empire Marketing Board, the Imperial Shipping Committee, and so forth.

Professor Einstein has recently calculated that the universe is not expiring as rapidly as our astronomers have hitherto led us to suppose, and that, thanks to the mysterious activities of sub-atomic energy, the furnace in which we live will not speedily be reduced to embers. The sub-atomic energies, so recently released in Whitehall and St. James's Street, should indefinitely postpone our economic demise.

Nevertheless, all this armament is little compared to what we are promised in the early future. One side is pledged to the organisation of "a

public authority " to control the Bank of England and also, it seems, the Joint Stock Banks and the City generally.¹ The other side is pledged to establish at once a permanent Imperial Economic Conference, which will always be sitting and collecting more data still. " I would at once set up a permanent Imperial Economic Conference, representing every part of the Empire, which would be in continuous session, examining these very problems and bringing before us the data which are lacking at present."² Meanwhile, in unofficial quarters both the Economic Committee of the Trade Union Congress and the Federation of British Industries demand a Permanent Secretariat to be set up and sit in the interstices of the Imperial Conferences. Assuredly, with such inexhaustible " data " to hand, our bombardment should work havoc in the trenches opposite. We shall have at least one buoyant export industry.

The other weapons with which we are invited to arm ourselves for the campaign are tariffs.

It may be observed that, from the year 1866 up to 1915, we had no protective duties in our Customs list. Since that date up till to-day we have instituted duties on over 7,000 items, charged at what may be deemed the high rates of $33\frac{1}{3}$ per cent. as a rule. They may be analysed into four classes: the New Import Duties,

¹ Cf. *Labour and the Nation*, revised edition of 1929, p. 14; also *How to Conquer Unemployment*, p. 21.

² Rt. Hon. Stanley Baldwin, M.P., speech at Worcester, August 2nd, 1930.

popularly known as the McKenna Duties, first imposed in 1915; the Safeguarding Duties as from 1921; the Key Industry Duties, first imposed in 1921; and, fourthly, the special duties on hops, silk and artificial silk, imposed in 1925. These duties yield together a total revenue of about £12 million.

The existing Safeguarding Duties, however, expire during the years from 1930 to 1933, and it is the policy of the Government of the day not to renew them. As regards the McKenna and Silk Duties, which provide a considerable proportion of the revenue, the Government maintains them at present for the sake of their revenue, but declares its intention of removing them in due course. These duties have had a broken political history, especially the McKenna Duties, which, instituted in 1915, were abolished in 1924, only to be reimposed in 1925, and added to in 1926, 1927 and 1928.

Into the specific controversy aroused over these Duties as a whole I do not propose to enter, not because I am not convinced of its high importance, but because my argument finds its natural focus in the great export industries. Upon the progress or decline of our great export industries turns our victory or failure in the Economic War.

When the Committee of Industry and Trade examined the witnesses engaged in these latter undertakings, it found that, owing to divisions of opinion, only a few of them were authorised

by their associates to express a representative opinion on the question of tariffs. So the Committee reported in 1929. Perhaps, however, one could say that the trend of evidence in the cotton trade was strongly against, while that in the iron and steel and engineering trades was, on the whole, and with some exceptions, favourable to, tariff protection. The wool trade was described as divided on the subject, and the chemical industries as fairly satisfied with the present position, which, in the case of certain of their products, includes an element of protection. "The inference, however, which we are entitled to draw is that there is no strong and general trend of organised commercial opinion in favour of any material change of national tariff policy."¹

Since the Committee thus reported in 1929 events have altered, and an immense concentration of public opinion upon this subject has been effected by the labours of Lord Beaverbrook and Lord Rothermere. The most considered statement of Lord Beaverbrook's policy is, perhaps, that furnished by himself on June 30th, 1930. "What we can attain to now is 'a tariff wall' round the Empire, with duties on the foreign foodstuffs, which is an essential part of the programme. Inside this Empire there would be absolutely free trade with the Colonies, subject to existing revenue tariffs; there would be limited partnerships with the Dominions."² Subject to

¹ Final Report, p. 267.

² Lord Beaverbrook's statement June 30th, 1930.

the important reservations contained in the latter part of this statement, this appears to be a clear policy, animated by a wide purpose, whether one approves it or not.

The most considered statement by Lord Rothermere, dated July 20th, 1930, is on similar lines, though it may be said to diverge at one point from that of Lord Beaverbrook. Lord Rothermere says: "Within the protecting tariff wall which Empire Free Trade will erect round the British Empire, every raw material that man requires is produced in ample abundance. Its population of 70 million whites and 370 million natives provides a market of consumers offering incalculable prospects of expansion for British manufacture." Lord Rothermere, however, proceeds to say that "out of the import duties on such foreign goods as we still continued to receive, a substantial subsidy could be paid to the British farming industry, until it was firmly on its feet again."¹ One gathers from this that in this latter case, though duties would be put on all articles, foodstuffs would be excepted, but that the farmers would be compensated by a subsidy granted out of the revenue derivable from tariffs.

Confining ourselves to Lord Beaverbrook's policy first, it seems that we are up against two difficulties. It has been shown on a previous page that Great Britain derives about 34 per cent.

¹ Lord Rothermere's article in the *Sunday Pictorial*, pp. 8-9, July 20th, 1930.

of her foodstuffs, in those classes of food normally produced in Great Britain, from foreign countries, and that she derives about 21 per cent. of them from the Empire. There would therefore be a high probability that taxation imposed on the 34 per cent. of these foodstuffs would raise their prices. And secondly, we are up against a difficulty mentioned by the leader of the Conservative Party in August 1930. "If you put a duty on foreign wheat, which *ex-hypothesi* they are going to do, that duty has got to be probably not less than £1 per quarter. Let us assume the country would give that protection—which I do not believe it ever will—what is going to be the result? The Empire wheat-growers could perfectly well put their heads together and import wheat into this country at very little less than the exclusive duty put on foreign corn, which would give the result of a completely unearned bonus to them of possibly 15s. a quarter, causing a corresponding rise in the price of foodstuffs in this country." ¹

As regards the policy of Lord Rothermere, the difficulty as to foodstuffs is, indeed, avoided, but then it involves taxing all raw materials imported here from countries outside the Empire.

But what would be the impact of either of the above policies on the export industries? If, as the above quotation shows us, the first of them would raise the prices of food, that would hamper

¹ Rt. Hon. Stanley Baldwin, M.P., Speech at Worcester, August 2nd, 1930.

us in our export trade. For, according to the Committee of Industry and Trade, "it is evident that any taxation which had the effect of raising the prices of essential articles of food would increase the cost of living and diminish the competitive power of industry in overseas markets." ¹

A similar effect must inevitably arise from the taxation of raw materials, as contemplated in the second of the policies under review. For, putting aside the taxation of foodstuffs, what would the policy of taxing raw materials, coming from foreign markets, mean? If we analyse the imports of raw materials into this country in any normal year, we find that roughly two-thirds of these come from foreign countries. For instance, the figures for 1928 are £213 million raw materials from foreign countries, and £122 million from the Empire. We should probably deduct in each case the raw materials re-exported, so that we may be enabled to observe the exact nature of our dependence in each case. Making this deduction in each case, we find that the raw materials which we retained for home consumption in 1928 were £197 million from foreign countries and £71 million from the Empire. Thus, since only 26 per cent. of our total requirements come from the Empire, it is only too certain that, by the imposition of a tax on the remaining 74 per cent. of net imports, we should raise the cost of production for our exporting

¹ Final Report, p. 274.

industries, and thus penalise ourselves in our campaign.

The same difficulty appears to arise in regard to the famous Bankers' Resolution on the subject of tariffs and trade which was published on July 4th, 1930. It must be remarked that the most important declaration contained in it was in the last paragraph of the Resolution, which declares that we must now be prepared "to impose duties on all imports from all other countries apart from those of the Empire."

It would seem that in their declaration of policy the bankers in question ranged themselves with the former interpretation of the policy of Empire Free Trade. The emphasis laid by the bankers on the imposition of "duties on all imports from all other countries" must presumably include foodstuffs as well as raw materials and manufactures. For, among our imports from foreign countries, foodstuffs and raw materials take an important place.

In these circumstances, it is impossible to avoid remarking that, in regard to our export industries, the raising of the price of food and raw materials in this country must exercise the adverse effect above mentioned. If we take our exports for the last completed year, 1929, these amounted to £236 million to Europe, and £169 million to other foreign countries. A total of £405 million to all foreign countries. In the same year we exported £66 million to our Colonies, £180 million to the Dominions, and £78 million to India. A

total of £324 million to the Empire. Hence our export trade is greater to foreign countries than it is to the Empire.

Now at present, broadly speaking, British goods are imported into foreign countries on terms at least as favourable as those applicable to similar goods imported from other foreign sources. Either by treaty, by domestic law, or by customary practice, British trade enjoys in almost all important markets the benefit of "most-favoured-nation" treatment. In countries which do not formally grant most-favoured-nation treatment, but practise "tariff reciprocity" by means of two or more tariff levels, or through the negotiation of separate reciprocal bargains, Great Britain, in virtue of its liberal Customs policy, usually enjoys the benefit of the lowest rate of duty. This is not to say that we are not injured by rising tariffs. And besides, the modern practice of minutely sub-divided tariff headings hurts us, as it does the rest of the world. Yet the fact is that at present we do gain most materially by our relative open-door policy, an advantage which it would be most dangerous to forfeit by embarking on tariff wars.

It must be remembered that Great Britain is still, in spite of all her acute adversities, the greatest exporting country of manufactured goods per head of the population. Or, at any rate, according to the official figures of the latest completed year, 1929, she exported values, wholly

or partially manufactured, of £12 15s. 1d. per head of her population in that year. Germany exported £7 10s. 6d. per head. Then France with £6 3s. 2d. Then the United States with £5 10s. 5d.¹ Our manufactured exports are falling this year, but so are those of other countries. Thus Great Britain is still of giant strength. Be it remarked that, since her exports are so mainly manufactured, she is in that ratio vulnerable to the danger of tariff wars, which naturally are liable to be aimed rather at the manufactured, than at raw material, goods.

It is true that there are pronounced on a thousand platforms utterances to the effect that "we must make the Empire an economic unit." If that means that all parts of the Empire should trade exclusively with each other, such a policy is not possible. For the Imperial Economic Committee, in its latest Report on the Trade of the British Empire, remarks that "in 1927 the value of the merchandise passing between Empire and foreign countries was about three times that passing between Empire countries."² Or, if it is meant by "an economic unit" that the countries constituting the Empire should only export to each other, that, too, is not to be achieved. Canada exports only about 43 per cent. of her total exports to countries of the British Empire,³

¹ Answer of the President of the Board of Trade to Sir Herbert Samuel, House of Commons, July 8th, 1930.

² Report of the Imperial Economic Committee, 13th Report, 1930, p. 26.

³ *Canadian Year Book*, 1927-8, p. 479.

India, 40 per cent.,¹ British Malaya, only 11 per cent.² We cannot, in our own interest, or in the interest of the British Commonwealth of Nations, cut ourselves, or them, off from the commerce of the world at large.

It must be understood that, tariffs apart, there is an immense field of action wherein we can hope to organise, and should organise, mutual economic aid. That will be the theme of Imperial Economic Conferences. The Colonial Development Act, with its Colonial Development Fund, and the Colonial Development Advisory Committee, the Empire Marketing Board, and so forth, bear witness to this fact. As Sir Basil Blackett has so well said, in enumerating all these possibilities, "tariff questions are neither central nor dominating."³

Lastly, on this question of tariffs there is the policy favoured by many statesmen of a general "safeguarding" of our industries by the taxation of all foreign goods, except raw materials and foodstuffs. The argument advanced in favour of such a course is that, assuming a duty of 10 per cent., and that this would lower the volume and value of our imports by one-third, then the yield of such taxation would be £21 million a year, an important addition to our revenue. In this case one chief difficulty must be that agriculture, already hard pressed, would be evidently

¹ *Review of Indian Trade*, 1927-8, p. 103.

² *British Malaya Imports and Exports*, 1927, pp. 885-7.

³ Article in *Nineteenth Century and After*, July 1930.

penalised. In order to make that up to agriculture, it is proposed to guarantee to it a satisfactory price for its wheat. "We have decided to go straight for the wheat problem as the key of the position, and as one which, taking the country as a whole, would be of the most value at this moment. We have decided, although I do not like subsidies, that the most practical way of increasing the percentage of home-grown wheat was to do it by a guaranteed price. That price is at present under consideration."¹

Looking at this policy from the angle of our export industries, it would seem that extra taxation of two sorts is involved in these propositions. There is the increased taxation involved in the duties proposed, and there is the increased taxation involved in furnishing guarantees to farmers for wheat at prices presumably above what they can obtain in the open market. The danger here is that our export industries are already hampered by the high range of taxation. In the United Kingdom we now have to bear taxation of £15 1s. 5*d.* per head. Our chief industrial rival, Germany, bears only £7 9s. 5*d.* of national taxes per head, or, if one includes State taxes, £9 12s. 8*d.* per head. Our other chief rival, the United States, has Federal taxes of £6 6s. 9*d.* per head, or, if one includes the taxation levied by the States, £8 14s. 3*d.* per head.²

¹ Rt. Hon. Stanley Baldwin, M.P., Speech at Worcester, August 2nd, 1930.

² Answer of the Chancellor of the Exchequer, House of Commons, March 25th, 1930.

Therefore, the danger of increasing taxation at the present time is not unimportant, especially for our export industries, whose main trouble already is that their costs are so high. This truth has been clearly presented to us in a striking Report on Taxation recently prepared by a Committee of the General Federation of Trade Unions. The official organ of the Labour Party summarises it to the effect that "the burden of all taxation falls in the long run on productive industry. Undue taxation tends to prevent the accumulation of that capital which is necessary to maintain an expanding industry. In other words, taxation affects prices and undue taxation tends to restrict trade. . . . It is foolish to expect that the social improvements for many millions can continuously be paid for by exactions from the wealth of a few thousands. However desirable it may be to secure fairer distribution of wealth, it is fatal to national prosperity to eat up that capital which is necessary to finance present and future production." ¹

It is to be hoped, then, that in the interest of our export trades, no less than in that of the general community, schemes involving more taxation, may not be approved. In August 1930 the Secretary of the General Federation of Trade Unions, after repudiating the policy of "basing schemes of taxation upon the theory that accumulations of wealth are immoral and that arbitrary re-distribution is an expression of social justice,"

¹ *The Daily Herald*, March 22nd, 1930.

remarks that, during and since the War, Great Britain has "burnt her candle at both ends." And he concludes by declaring that "each day's experience demonstrates the accuracy of the conclusion that taxation, such as is imposed in Great Britain, reacts to the prejudice of industry and employment, while the increased taxation adumbrated in various political proposals must force existing strains to breaking point."¹

So, if fresh taxation, whether by the agency of tariffs or of subsidies, is likely to impose new burdens on our already heavily burdened export industries, we must seek other means for obtaining victory in the Economic War.

¹ *The Reaction of Taxation upon Employment*, by Mr. W. A. Appleton in the August 1930 number of *Lloyd's Bank Monthly Review*.

CHAPTER X

THE CAMPAIGN OF BRITAIN (*continued*)

I

IF the reader has done me the honour of following the argument hitherto advanced, he will have remarked that, according to it, our age-long strife between Capital and Labour tends to abate in the ratio that its causes tend to be removed. Meanwhile, however, as that troubled star descends to the horizon, upon the opposite quarter of the heavens rises another luminary of more sinister omen, and is lord of the ascendant.

This latter phenomenon we have described as the war of Labour against Labour, in the sense that, throughout the world, mighty industries are arising on a scale which dwarfs those of yesterday, to compete for the patronage of consuming Man. It is true that in each of these industries the internal problem of Capital *versus* Labour may still be playing its disturbing part. But in this country, at any rate, that is secondary and subordinate, not central any more. The ganglion of the storm, the focus of the battlefield, is henceforth elsewhere.

It has been further indicated that this clash of international forces reserves its worst effects for

our export industries, which have been shown to be the really vital ones for us. If these effects go on unfought, increasing masses of our population will be confronted with the dread alternative : to live without working, or to work without living.

The effects in question appear on analysis to impinge on us in a threefold manner from outside. There is "over-production" with its machines whirring everywhere, so that we are flooded out of our old markets. In other quarters there is "under-consumption," a feebleness or a failure of purchasing power. And next, even in areas where there are willing buyers awaiting us, tariff walls are raised and the economic portcullis descends.

And now let us take a step forward beyond the point arrived at hitherto. Notice that the havoc thus created is not singular to ourselves. Almost everyone suffers, and there is acute economic trouble affecting industry at large. In default of other grains of comfort, there is a grain of comfort here. Since these external forces are not under our control, we cannot even attempt to persuade others to unite with us in allaying them, so long as no one is attacked by these evils but ourselves. If, however, all are suffering, if in the world of labour all are damnified, and if, further, all these evils are arguably in the control of humanity itself, then, if so, why should Labour not combine with Labour—Labour including Capital, which, after all, itself is Labour—so as

to combat these general ills ? That is a consideration to which I shall return at a later point of this chapter.

It will have been remarked that, in the analysis of the external causes of trouble above mentioned, nothing has been said about a fourth cause still, that of the falling price level. By an astonishing convulsion, the rise of wholesale prices from 1896 to 1920 has been followed by a more amazing fall from that time forth. Taking the datum of 100 in 1913, prices rose up to 320 in April 1920, only to fall back again to about 111 to-day. Has not Sir Josiah Stamp remarked that civilisation itself is in risk therefrom ? “ Civilisation is more in jeopardy from the arbitrary movements of its common denominator of value than from any other cause.”

Three experts of the most signal abilities, Professor Gustav Cassel, Sir Henry Strakosch, and Mr. Keynes, have furnished us with their views upon this great subject.

Professor Gustav Cassel writes : “ Ever since the War a growing scarcity of gold has threatened the world, with the consequence of the continuous lowering of commodity prices, resulting in a general economic depression. The amount of new gold required to be provided each year, for the purchasing power of gold to be maintained at a constant level, increases in proportion to the rapid economic progress of the world ; whereas an already insufficient production is expected to be reduced very considerably during the next

two decades. The only conceivable means of preventing this calamity is a systematic reduction of the monetary demand for gold. . . . Under the leadership of the Bank of England this policy has undeniably attained very valuable results. . . . During the past year the stability of the world's price level has also been threatened by the eagerness of some Central Banks to increase their gold reserves. . . . It is certain that a better insight into the duties of Central Banks, and a fuller acknowledgment of their true responsibility would have to a great extent prevented the economic depression which we are now witnessing, and which we shall endeavour in vain to overcome until we secure for the world the fundamental condition of stable money." ¹

Sir Henry Strakosch also reviews the monetary situation, and, with a great weight of argumentation, arrives at a similar conclusion.² He quotes a memorandum on Production and Trade, issued by the League of Nations, giving figures of the world production of industry for the period from 1923 to 1927, indicating a growth of 3 per cent. per annum compound. The population of the world, on the other hand, has been increasing at the rate of 1 per cent. per annum. There has thus been an excess of production equivalent to about 2 per cent. per annum over and above

¹ Professor Gustav Cassel's article in March 1930 number of *Lloyd's Bank Review*.

² *Gold and the Price Level*, a Memorandum on the Economic Consequences of Changes in the Value of Gold, by Sir Henry Strakosch, G.B.E., Supplement to the *Economist*, July 5th, 1930.

what is needed to maintain that increased population at a stationary standard of life.

In spite of this, Sir Henry Strakosch does not consider that there has been over-production, or, indeed, any reason for a fall of prices arising out of the above facts; provided that there have been available media of exchange, in the form of money of all kinds, to an amount that corresponds to the increased volume of exchanges that this greater production necessitates. But this is exactly where, according to him, the shoe pinches, or, at any rate, begins to pinch.

For, following the restoration of the Austrian currency in 1923, and that of the Hungarian currency in 1924, Great Britain in 1925 returned to the Gold Standard, followed by her Dominions. Thus 60 per cent. of the world's population was henceforth handling money linked to gold, and hence an enhanced demand for that metal.

This would not have mattered if another movement of high importance had not been inaugurated as from 1928—*i.e.*, a vast redistribution in the world's gold reserves, accompanied by a partial sterilisation thereof. "That sterilisation is most pronounced in the case of America, the Argentine Republic, and, since 1928, of France, these countries having accumulated gold reserves far in excess of their reasonable needs. . . . Together they, *i.e.*, the United States and France, have in this manner sterilised gold to the value of £110 million, and deprived the Gold Standard world of the possibility of augment-

ing the amount of currency and credit that was needed for the exchanges of its increased production."

In the midst of this reasoning Sir Henry Strakosch presents to us an impressive reflection. "The truth that the Gold Standard has bound together the civilised world for good or evil in the greatest international partnership ever known in history, that this partnership, while conferring benefits on each partner, also imposes upon them stern duties, and that transgression by any one partner inflicts hardship on the rest, is hardly realised."

Let us pause a moment here, in order to register a thought of importance to our argument. Professor Cassel and Sir Henry Strakosch, in dealing with the international aspect of this matter, expose a mighty world-wide convulsion, which they attribute, I think not quite conclusively, to the increasing stress upon gold. Both agree that this danger is capable of remedy, and they point to that remedy. And thus, in discussing this fall of prices, which has so much affected our export industries, in addition to the three adverse causes discussed in the previous chapter, they register their opinion in this fourth case, that this issue, too, with all its gigantic perturbations, is capable of adjustment, armistice and peace.

In proceeding next to observe the angle from which Mr. Keynes has viewed this same subject, we must refer back to his argument, developed in his pamphlet of 1925 entitled *The Economic*

Consequences of Mr. Churchill. We pass in this case from the matter, as viewed internationally, to the same matter as viewed from our national standpoint, and very specially from the standpoint of the interests of our export industries. In this pamphlet, written so long ago as 1925, the prophet hits the bull's eye of the future all the time.

Mr. Keynes does not write as an opponent of the Gold Standard, or, at any rate, his arguments "are not arguments against the Gold Standard as such." It is against the particular policy which we adopted in restoring the Gold Standard in the spring of 1925 that his protest lies. He considers that this dealt a blow that would prove disastrous to our export industries in the future. He takes the coal industry and the statement of the then Chancellor of the Exchequer that the return to the Gold Standard is no more responsible for the condition of affairs in the coal industry than is the Gulf Stream. This latter is a statement which arouses the indignation—the just indignation, be it said—of Mr. Keynes.

Mr. Keynes argues that, by a "dangerous and unnecessary decision" taken in 1925, we raised the foreign-exchange value of sterling from a point about 10 per cent. below its pre-war value up to its pre-war value in gold. This meant, of course, that whenever we sold anything abroad, either the foreign buyer would have to pay 10 per cent. more in his money, or else that we should have to accept 10 per cent. less in our

money. Thus the policy of improving the exchange by 10 per cent. involved a reduction of 10 per cent. in the sterling receipts of our export industries. The result would be that, failing a fall in the value of gold itself, "nothing can retrieve their position except a general fall of all internal prices and wages."

A general fall in wages! That would be economic war. Why should the working classes accept a general reduction of wages because of an unnecessary action, "a misguided monetary policy," decided upon in London by an "immensely rash" authority? And if wages would not fall, prices could not, at any rate to the required extent.

Mr. Keynes proceeds to argue that, so far from the level of sterling having nothing more to do with the profits of our export industries than the Gulf Stream, those industries, and especially the coal industry, must be specially hit by it. The coal industry more than all, because of the very high ratio that its wages bill bears to its total costs. "More than any other industry, the coal industry has to sell at the foreign value of sterling, and to buy at the home value of sterling. A measure which raises the former without raising the latter proportionately is, therefore, certain to prove particularly injurious to the coal industry." It is true that our export industries suffer from other evils besides that one created by the level of the foreign exchange. Nevertheless, to say that that level is of no importance to them is as

irrational as to argue that, because an epidemic of influenza carries off only those with weak hearts, therefore it has no more to do with the mortality than the Gulf Stream.

Since Mr. Keynes wrote this pamphlet events seem to have elevated him to the rank of a Major Prophet. Several nations having proceeded since 1925 to hoard gold, the monetary pressure upon our export industries seems to have been accentuated. And finally, added to this national and international pressure, there has been specific legislation tending to keep up costs in our export industries. Thus, as Professor Clay has pointed out, there has been not only "an intolerable handicap on the export industries, but post-war legislation, by extending legalised collective bargaining and giving it the support of a national system of unemployment relief, has made the English wage system the most inelastic in the world. . . . It is not suggested that these unfortunate reactions upon industries are reasons for adopting different policies, but they are reasons for special consideration of the industries incidentally affected." ¹

It would seem to follow irresistibly from what has been represented in this, and the preceding, chapter, that in the Economic War the spear-head of Britannia is export, and that this essential weapon has been sorely blunted by many converging events and many policies.

¹ Professor Clay, *The Post-War Unemployment Problem*, pp. 202-3.

And now, at this crucial point of our argument, let us turn from the elements of depression, upon which we have dwelt so far, to the elements of hope, as to which we have hitherto said little or nothing. In so doing we must necessarily keep our attention fixed upon our export industries.

II

Let us remark, to begin with, something really fundamental. In spite of the chaos produced by over-production, by under-consumption, by tariffs, and by dislocated price levels, the output of the world and the trade of the world continue to increase.

In August 1930 there was published a Memorandum on Production and Trade covering the period from 1923 to 1928-9, prepared by the Economic and Financial Section of the League of Nations. The world's population, it seems, is almost 2,000 millions—*i.e.*, 10 per cent. greater in 1928 than in 1913. Notice that, in spite of this rapid rate of growth in population, the output of foodstuffs and raw materials increased at a much faster rate than the population. This output was actually 25 per cent. greater in 1928 than in 1913. Inspecting these figures more closely, we find that between 1926 and 1928, whereas the world's population increased 2 per cent. in those years, the output of foodstuffs and raw materials was greater by 8 per cent. in 1928 than in 1926. Thus production of the essentials of pros-

perity is much swifter than the growth of population. Is Britain going under, she who, of all other people, is a consumer of food and raw materials? All this is substantially to her advantage.

Returning from the output, to the exchange, of things, *i.e.* to international trade, this has increased by 22 per cent. since 1913, and by no less than 11 per cent. during the last two years of the period—*i.e.* 1926 to 1928. But is not Britain the great world-trader? Granted that she be well organised, alert and resolute, should she not find a multitude of occasions of profit here?

And next, basing ourselves still on the same Memorandum, observe that manufacturing production has increased faster than the volume of industrial raw materials. This is attributable to the introduction of more science into industry, entailing new economies and enabling a larger production to be obtained from a given supply of raw materials. The iron and steel, the mechanical, and the electrical, industries have been particularly prominent in this advance, their production having expanded by 25 per cent. or more, in the period from 1925 to 1929. A slower development of the cotton and wool industries is attributed partly to the increased use of the new textile, artificial silk, as well as of natural silk. But all this production of manufactures must imply a corresponding appetite for consumption somewhere. Is not this, too, an economic evolution affording ample

opportunities to the magnificent industrial energies of Britain?

The above-quoted Memorandum of the League of Nations serves also to furnish another ground for hope, and this in the monetary sphere. It was noticed above that Professor Gustav Cassel and Sir Henry Strakosch attribute the fall of prices since 1920 to the pressure on gold, mainly exercised by the United States, France and the Argentine. If they be wholly correct—that they are partly correct may be well admitted—then the outlook of the world would be dark. For, after all, no power on earth, at any rate as the earth is at present organised, is capable of asking the United States, France or the Argentine to part perforce with its gold. Perhaps one might say that there is no power on earth so rash as to do so, even if it could, for gold is a useless metal to hold, after a certain small stock has been accumulated. Great Britain herself can very well conduct her international business on a stock of £150 million or less. Apart from all that, does not this Memorandum show that the recent gigantic growth in goods and materials relative to population may have something to do with the fall in prices? If so, then the fall of prices may be the signal and the symptom of returning affluence rather than of monetary dislocation.

Besides this, looking at the matter on purely technical grounds, to demonstrate that the fall of prices is due to the scarcity of gold is to prove too much. For, if we choose to start from another

datum line—*e.g.* 1913—there has been since 1913 not a fall of prices, but a rise of prices—*i.e.* from 100 up to 111, to be accounted for up to the middle of 1930.

It should be noticed, to revert to the trade situation of the world, that the League of Nations also issues a table showing how world trade is distributed as between the various parts of the world. It is remarkable that, even in 1928, the trade converging on, and arising from, Europe, including Russia, is actually more than one-half of the total trade of the world. But this ratio, which was 58·4 per cent. in 1913, had declined in 1928 to 52 per cent. Meanwhile, North America has gained considerably, and so has Asia, excluding Asiatic Russia. The other parts of the world have retained their 1913 ratios. Hoary Asia, our parent, and hustling America, our progeny, combine to jostle us.

It is plain from this that Europe, relatively to the world, has lost ground owing to the War, and thus we, as Europeans, are probably suffering in that same proportion. But because some European interests may be crumbling, the world has not cracked. And even as regards Europe, with whose fortunes we are so indissolubly linked, we may hope that Europe will amend. It is true that, since the War, Europeans have fallen in the estimation of the world, and that their slaughterings of each other have discredited Christendom in the eyes of other races. Yet there is evidence to show that our Continent has taken

fundamental economic reconstruction in hand. Or, at any rate, we are so informed from the International Labour Office at Geneva.

“Whether one considers hours, the conditions of employment of women and children, or the protection of workers against social risks, it is impossible to avoid the conclusion that during this period an immense advance has been made in the general well-being of the industrial population of the Continent. This progress has not been confined to a few of the richer and larger countries, but is virtually universal in its scope. As a result, even where their real wages have not been increased, and in spite of the depression which has marked many of the post-war years in nearly every European country, millions of workers throughout Europe are considerably better off than they were before the War. Their hours of leisure are longer, their conditions of employment better, and they have an increased measure of protection against the misfortunes of life.”¹

III

So far, then, I have indicated that, in spite of the bad times at present, the world as a whole is advancing over a period of years. The question we have now to ask is whether Great Britain can take her share in this progress. Permit me, at this point, to present the truth disguised as a

¹ Address by Mr. H. B. Butler, of the International Labour Office, to the Manchester Statistical Society, March 12th, 1930.

paradox, but as a paradox which may serve to reassure us. If our industries were perfectly organised to-day, if our machinery were of the most modern date, if our market methods were beyond reproach of existing criticism—that is to say, if we had already done all that we could and there were nothing left to be done upon our part, then our present situation would be alarming indeed. But if, on the contrary, there is immensely much to be done and which we can do, if our machinery and our marketing are alike fallen momentarily behind the times, then surely it is only sheer common sense to conclude that there is good hope still. Such, in fact, is what I shall now proceed to indicate.

In the conclusion of the Final Report of that great Committee on Industry and Trade which for five years has investigated our economic situation, the Commissioners state: “It is, we think, abundantly clear from our survey that the first step towards putting British industries in a position to compete successfully in foreign markets is to subject their organisation and equipment to a thorough process of re-conditioning.”¹

A thorough process of re-conditioning! What does that imply as regards the present, and what does it involve as regards the future? It implies, in plain business terms, that the fixed assets of British industry are falling, or have fallen, behind. It implies that our industrial armoury

¹ Final Report of the Committee on Industry and Trade, 1929, p. 297.

is, in part at least, obsolete or obsolescent, and that we are entering the Economic War with a handicap against which no monetary policy, no good-will between Capital and Labour, no tariff preferences, no "binding-up" of the Empire, no Imperial Economic Conferences with Permanent Secretariats, no import Boards, no economic eye-wash whatsoever, no hiding of our heads in the sand, even though that sand be the auriferous sand of "rationalisation"—not all of these together can avail to save us.

That this is the correct interpretation of the Committee's meaning is evident when we read a little later that "the re-conditioning of British industry will undoubtedly involve a great deal of scrapping and replacement of plant, and enlargement of the industrial unit." All this is necessary because to restore "the competitive power of British trade in overseas markets is vital to the very existence of the population."

Warned by this impressive injunction that, in the Economic War, "the fault, dear Brutus, is not in our stars, but in ourselves, that we are underlings," let us, by way of verification, look round the condition of some of these exporting industries to-day.

Take coal, first and always in our economic thoughts. For we owe our industrial development largely to the fact that Nature has placed under our soil deposits of it sufficient to last for centuries, of unrivalled quality, and easily accessible. On that bedrock we have con-

structed our industrial system, and have secured for a stupendous populace a standard of living higher than that of our neighbours.

Apart altogether from the method by which this vital asset is worked, is the organisation efficient for merely carrying it from the mine to the consumer, a relatively simple process, one may think? Sir Herbert Samuel, the Chairman of the Royal Coal Commission of 1925, speaking recently on that theme in the House of Commons, stigmatises the way in which coal is transported as disgraceful. He begs us "to get rid of the shocking wastefulness of our present transport arrangements, with little toy trucks wandering about the railways, 750,000 of them belonging to 5,000 separate owners, each making only two journeys per month. That is immensely wasteful in comparison with Germany, where they get more than twice the use from their rolling-stock that we do. We have a waste of something like £30 million capital in unnecessary rail costs, about 10 per cent. of the capital of the industry."¹ Thus, quite apart from any inefficiency in methods of extraction, those concerned do not even manage to transport the coal otherwise than with a "shocking wastefulness," which one might suppose to be not above the wit of man to reform.

As regards our engineering and metallurgical industries, Lord Aberconway, in his admirable

¹ The Rt. Hon. H. Samuel, M.P., House of Commons, Dec. 17th, 1929.

work on the *Basic Industries of Great Britain*, points out that, up till about 1870, "Great Britain held the monopoly of the world."¹ Our people then became slack owing to their easy prosperity, whereas, after the war of 1870, Germany, France, Belgium, Switzerland and the United States resolved to establish their own industries. Our people "turned a deaf ear to science and industrial reform," and consequently "saw the profits of their iron and steel works rapidly falling away." In the later seventies there was "a period of almost hopeless depression." And then, as usual, our people woke up and won the battle.

Nowadays it seems that in some branches of these industries we are well abreast of modern developments. Indeed, the recent British Delegation which has visited the iron and steel industries on the Continent considers that, in certain units of plant, ours are "equal to, and in some cases superior to, the iron and steel plants which have been seen on the Continent."² Is this good enough? For the Committee of British Industry and Trade, in its survey of the metal industries, published in 1928, left no room for doubt that a great modernisation effort was regarded as necessary. The point was stressed that, while many individual steel plants were modern and highly efficient, few British works

¹ Rt. Hon. Lord Aberconway, *The Basic Industries of Great Britain*, 1927, pp. 343-4.

² Report of Delegation issued by Economic Advisory Committee, 1930, Cmd. 3601, p. 39.

were modern throughout. The continuance of these defects was attributed mainly to the difficulty of obtaining adequate capital. As to coking plant, the Committee declared that the British industry remained where the Continental industry was before the War, and they emphasised that "the need for modernising the iron and steel plants has become more pressing."

Since the Committee reported we are told to-day that, as regards the coking and by-product plants, "the urgent need for wholesale replacement is denied by only the most wilfully ignorant. In the most important coking centre . . . only two or three are not obsolete, judged by American or German standards, out of about thirty plants. . . . The necessity for blast-furnace reconstruction on a large scale is also generally admitted; the majority of iron furnaces in this country are small and costly to operate."¹

We pass to the textile industry of cotton, already referred to in the previous chapter. We saw in the last chapter how far Lancashire has suffered because of foreign activities; but there are other reasons too. The Committee on the Cotton Industry speaks in 1930 with almost brutal frankness of the Lancashire methods. It says that "until far-reaching improvements are introduced into the British industry, there is no likelihood that Lancashire will be able to arrest the decline of her export trade." It adds that "the organisation of the Lancashire cotton

¹ Article in *The Economist*, Jan. 25th, 1930, p. 163.

industry, with the exception of the finishing section, is substantially the same as that which existed in the nineteenth century," and which has long been discarded by other people. "The system" now followed by the cotton industry "is to-day manifestly inadequate to meet the strain of modern conditions . . . the old conditions, so favourable to Lancashire, have passed away for ever." In plain terms, not only technical improvements of the spinning and manufacturing sections, involving considerable equipment, are urgently needed, but the whole system of marketing is antiquated. Happily, "we are assured that, for any satisfactory and comprehensive national rationalisation scheme having for its object the reduction of production costs and improved marketing, the necessary finance will be forthcoming."

One hopes, and believes, that beside "the necessary finance," which has proved rather too lavish in the past, our Lancashire people can provide the brains and resources which enabled members of the Peel family in 1764 to start them on their wonderful progress. Two of the foremost authorities on Japanese competition in the cotton trade give us hope. "Lancashire is still a giant, exporting even now nearly half the cotton goods exported by the world . . . a Colossus astride of two centuries." It stands on one leg planted on the firm ground of efficiency, co-operation, and combination. "But the other leg remains embedded in the nineteenth century,

in the bog of extreme individualism, expensive overlapping, and wasteful internal competition. If the Colossus now has the will and power to complete its stride, and plant both legs firmly in the twentieth century, then we believe that the British cotton industry may once more regain its former prosperity.”¹

Though not much has hitherto been said above as regards the subject of the existing equipment of our export industries, more is rendered superfluous by the statement made early in 1930 on behalf of the Government by the then Lord Privy Seal. Speaking at Manchester, he referred to “the necessary re-organisation and re-equipment required for our industries.” He added that “those in the City who have been studying this matter are convinced that a number of our important industries must be fundamentally re-organised and modernised, in order to be able to produce at prices which will enable them to compete with the world.” But since the long-continued trade depression had pushed manufacturers “to the limit of the credit which they can reasonably demand,” the City was prepared to co-operate “in working out plans and in providing the necessary finance.”

It was in accordance with this policy that the Securities Management Trust, a subsidiary of the Bank of England, was registered in November 1929. The primary object of this

¹ Messrs. B. and H. Ellinger, *Journal of the Royal Statistical Society*, Vol. XCIII, Part II, 1930.

Trust was the examination of schemes for the rationalisation of British industry. Quickly following on this, in April 1930, there was registered the Bankers' Industrial Development Company. This was, in effect, a partnership between the Bank of England on the one side, and the City on the other. For the "A" Shares have been subscribed by our banking and financial institutions, including practically every home bank and issuing house of first-rate importance, while the "B" Shares have been subscribed by the Securities Management Trust, the creation of the Bank of England.

The object of the Bankers' Industrial Development Company is, avowedly, to examine schemes of rationalisation submitted by the basic industries of the country. But it is not intended that the new company shall deal with individual companies, but only with industries as a whole, or with regional sections of industries. It seems indicated that any new capital provided shall be used for the reconstruction of plant and for placing our basic industries in the forefront as regards technical equipment and organisation. It is, in fact, an endeavour to help industries to rationalise, a campaign in which the Bank of England is providing the leadership. It is formed for five years only, but we may hope that during this critical period it will begin to order our line of battle for the coming Economic War.

IV

It has next to be observed that, though re-organisation and re-equipment at home are essential steps in the Campaign of Britain, these are not enough. The spearhead of Britain must be directed with accuracy, after it has been well forged in the furnace at home. After machinery, marketing.

At this point we seem to enter upon a sea of bewilderment. During the last thirty years, or more, our commercial representatives abroad have almost unanimously and unceasingly commented on the singular fact that, while British goods are superb in their excellence, being the fruit of the labour of our unparalleled artisans and of our skilled management, our marketing methods are the reverse. Who has not read how trade catalogues are circulated, couched in unknown tongues, among dagoes innocent of Pentecost, how ice machines are warmly recommended to already frozen Eskimos, or how Rajahs must suffer in order that Tottenham Court Road may smile?

If we wish to be up to date on this subject, we must study the reports from various countries issued by the Department of Overseas Trade, and written by our Commercial Counsellors and Consuls; also, the recent report of the Committee on Education for Salesmanship; and finally, the report of the Committee of Industry and Trade itself. The latter report remarks that

“ it is impossible, on the study of the evidence as a whole, not to receive the impression that . . . too many British exporters show a want of proper activity in the way of intelligent and sympathetic study of the markets and energetic salesmanship.”

The Association of British Chambers of Commerce declares that “ as regards price and quality of goods, the opinions expressed to the Association are that British goods continue to enjoy a high reputation for quality.” The Bombay Chamber of Commerce says that “ British manufacturers have a world-wide reputation for solidity.” The Burma Chamber of Commerce says that “ the British trader overseas enjoys a great reputation for integrity.” And, generally speaking, as the Committee on Education for Salesmanship points out, “ there is a very strong and healthy aversion in this country to doing anything which might lower the reputation for quality enjoyed by British goods.” Similarly, we read in the Report of the recent British Economic Mission to Argentina, Brazil and Uruguay that in those countries Great Britain enjoys “ exceptional favour.” “ Based partly on historical grounds, partly upon the high reputation of the solidity of British goods, and still more upon the high and honourable reputation of our merchants established in South America, everything and everyone from Great Britain receives special consideration. It is no exaggeration to say that, on equal terms, large classes in South America are more than willing

to deal with Great Britain." On these grounds the Mission concludes that "our conviction is that under certain conditions, not only is recovery possible, but we can improve all past records."

From all this it would appear that we should entertain the greatest confidence in our capacity to succeed in the Economic War. After all, our people have the root of the matter in them. Their character is as high as their workmanship. Yet, apparently, there is another side to this pleasing vision. Marketing is wanting, and to-day marketing is half the battle.

The D'Abernon Mission to South America proceeds: "The principal criticism of British commercial practice in the countries we have visited is our apparent incapacity to accommodate ourselves to local circumstances; we are reproached with inadaptability and with persistent adherence to what Great Britain thinks good, to the exclusion of what South America wants." Too high prices, unsuitability to South American needs, defective salesmanship, inadequate advertisement, inadequate showrooms, inadequate range of choice. "The large Argentine demand is for the new commodities of commerce, and we do not supply them. Either we do not make them, or we do not market them; at least, not on the scale worthy of our position as an industrial and exporting nation."

From the other side of the world come similar representations. Our Commercial Counsellor from Peking reports strange things: "It cannot

be repeated too often that the practice, still unfortunately common, of broadcasting letters of inquiry, circulars and catalogues to Consulates, without any regard to conditions prevailing in the districts to which they are addressed, is merely a waste of time and money." Again he says: "Our manufacturers, with one or two notable exceptions, show no inclination to spend money on advertising their wares in this country, being apparently under the impression, entirely mistaken where China is concerned, that their goods can sell themselves. . . . I feel compelled to emphasise what appears to be the neglect of some of our manufacturers to place their goods on this market in an attractive form and a manner calculated to catch the eye of the Chinese shopping public."

The report on British trade with China concludes that, speaking generally, the home manufacturer does not pay sufficient attention to the China market: he does not exert himself enough to find out what the Chinese really want; he does not advertise his goods sufficiently, or present them in a sufficiently attractive manner in this keenly competitive market, and he does not give the financial assistance to his agents which they can fairly claim, especially when introducing new goods into the market. In many cases he does not even know where his goods are going, and if a repeat order does not come along, he does not even trouble to ask the reason. On this question of marketing, we have

to remember that to-day, as the Senior Trade Commissioner in India so well says, in his report for 1927-28, "foreign competition now enters into practically every trade, including those which have hitherto been almost exclusively British." The Economic War is fought fiercely and contested inch by inch throughout every market in the world."

Perhaps the fairest statement on this subject has been made by the Committee on Education for Salesmanship: "We fully recognise that no particular criticism applies to all British exporting firms, and that some criticisms, perhaps, apply only to a minority. At the same time, we regard it as a very grave fact that a large number of competent witnesses, having the interests of British trade at heart, and seeking only to be of service to the Empire, should so often have to criticise British methods and so often think it necessary to insist on principles which might be expected to be self-evident to all. It is impossible in face of these facts to believe that all the essentials of overseas marketing are grasped and acted upon by the majority of British exporters."¹

It may be suggested here that our past remissness in marketing is the reflex result, as it were, of the individualism characteristic of British industry in the past. Our firms, being small and lacking working capital to conduct marketing as required on the scale nowadays, and being also

¹ Report of the Committee on Education for Salesmanship, p. 38.

in active competition with each other, have not commanded the capacity or the means sufficient to provide the overseas end of their work. It is only rationalisation at home which, by co-ordinating businesses here, can furnish an overseas organisation able to stand up against our rivals. Or, even short of rationalisation, Export Associations can be formed by firms engaged in the same business for the purpose of fighting the battle of overseas marketing, as has already been done, in fact, in the case of the iron and steel industry.

In sum, a nation of manufacturers must become—let us hope, is on the way to becoming—a nation of salesmen, too.

V

But next, it is said that our costs are too high in this country, and that this must forbid our success in the Economic War now waged abroad by our export industries.

Costs in industry may be subjected to a four-fold analysis. There are wages costs. There are works costs. There are transport costs. And there are taxation costs. These are the four costs which our industries have to face.

As regards the recent history of industrial costs in this country, we read in the Gazette of the Ministry of Labour in the first quarter of 1930 that "it is estimated that at the end of December 1929 weekly full-time rates of wages averaged

between 70 and 75 per cent. above the level of August 1914 . . . as considerable reductions in normal weekly working hours were made in nearly all industries in 1919 and 1920, the percentage increase in hourly rates of wages since 1914 is substantially greater. . . . It seems probable that, at the end of December 1929, the average level of hourly rates was between 90 and 100 per cent. above that of August 1914.” It will be observed that the above calculations do not apply specifically to the export industries. To ascertain the costs of these we must refer to the Committee on Industry and Trade.

That Committee reports that : “ We may without great risk of error infer that the average rise of industrial costs in the great exporting trades between 1913 and 1925 has been in the neighbourhood of 80 to 90 per cent.”¹ We may suppose that since that date costs have somewhat fallen. Nevertheless, it is evident that this matter of costs constitutes a most important factor in the conduct of the Economic War.

It will be further observed that the above quotations furnish no indication of the comparative level of wages costs as between ourselves and our foreign competitors. In this case, however, we are fortunate in possessing an index of the real wages paid in some of the principal cities of the world, expressed as a percentage of those in London. The former index was re-

¹ Committee on Industry and Trade, *Further Factors in Industrial and Commercial Efficiency*, 1928, p. 9.

constructed on scientific principles in 1929 by the International Labour Office, and has been brought up to date by that Office for the first quarter of 1930. The new indices compare the amounts of a given budget of food and fuel which can be bought with a wage representing the unweighted average of the wages of the thirty categories of workmen represented in each of the countries in question. With all its possible errors of calculation and with all the numerous qualifications for which the expert reader will make allowance, it is as follows: Great Britain, 100; Canada, 165; France, 58; Italy, 43; United States of America, 197.

These figures seem to indicate that, in the Economic War, wage levels, as such, are not all in all. For the United States of America wage level is evidently much higher than our own, and yet it is the United States of America which has proved such a formidable competitor to us in the neutral markets of the world, especially in those of South America. If wages costs of themselves mainly determine competitive capacity, clearly the United States of America would have been most seriously handicapped during all these years. And this consideration we may see illustrated further from the experience of our own electrical manufacturing industry.

A very careful analysis has been made showing that, the average labour costs in Britain being taken at 100 in this industry, the figure is 84 for Germany, 73 for France and 64 for Belgium.

Our costs in this country, besides this, have doubled since before the War. Yet it is reported that the efficiency of British labour, measured by the ratio of tonnage produced to man-hours worked, has increased since 1913 by 29 per cent., and has risen by 20 per cent. since 1923. This improved efficiency of labour, coupled with more scientific organisation of output, has contributed largely to the ability of the industry to reduce substantially and progressively its selling prices per physical unit of capacity supplied. These facts appear to indicate that it is rather the efficiency of labour than the wage scale of labour which is in many cases the determining factor.

Nevertheless, when all is said and done, it is quite evident that sooner or later wage costs must be related to the productivity of industry. But here we may notice, in regard to the export industries, a factor of the highest importance which is beginning to assert itself in the construction of their wage systems, and which must, I think, have an important and satisfactory bearing on the future.

From a full inquiry recently conducted by the Committee on Industry and Trade, "the result was to show that the group of exporting industries in which payment by results in its widest sense was most prevalent were the textile, mining, iron and steel, and clothing groups, while time work was still the most usual method in the engineering and kindred trades and chemical manufacture. In the engineering group, however, there has

been a noteworthy extension of payment by results in recent years, and we are informed that more work-people are now paid by results than by time, particularly in the skilled occupations. Taken as a whole, methods of payment by results have been gaining on time work as the basis of wage payment, and probably at the present time the number of employees in the exporting group of industries who are paid on this principle is not far short of the total number of time-workers. From this point of view of cost of production we find every reason to welcome this movement, and to hope that it will be accelerated in the future, under proper safeguards for the workers' standard of life.

"In expressing this conclusion we are not unmindful of the abuses of unregulated piece-work in the past, which have left a most pernicious legacy of suspicion and aversion in the minds of certain classes of workmen and Trade Unions. . . . Feeling, however, as we do that the solution of the central wages problem indicated above is largely bound up with the frank and unreserved acceptance of the principle of payment by results, for all operations to which this system is suited, we earnestly hope that no effort will be spared to overcome the difficulties which stand in its way." ¹

In looking at this question of wages costs in our exporting industries, we must be careful to

¹ *Final Report of the Committee on Industry and Trade, 1929, pp. 97, 98.*

realise that these vary in their proportion to the total cost in each industry. Thus in coal mining the ratio is as high as 70 per cent. In cotton-spinning and weaving the percentage represented by labour costs is only 15 per cent., this variation being mainly attributable to the high proportion of spinning and weaving cost represented by raw cotton and yarn respectively. In the heavy chemicals the percentage of labour costs is about 20. But, putting aside these variations, "the available figures indicate that in the cost accounts of the great exporting trades as a whole, the average proportion borne to total cost by the wages of labour employed directly or indirectly on production is somewhere in the neighbourhood of 30 to 40 per cent. A weighted average of the returns gives 36 to 37 per cent. for 1925."¹ We may presume that this ratio is not much disturbed by current events.

I do not propose to weary the reader by offering similar reflections as regards the costs otherwise mentioned, *i.e.* works costs, transport costs and taxation costs. It may be enough to remark that reduction of works costs must be the specific work of rationalisation. The reduction of transport costs is a matter of special importance for our export industries, because so large a part of their products are heavy, and must consequently use the railways. The Ministry of Labour reports that our railways paid £44 million in wages and

¹ Committee on Industry and Trade, *Further Factors in Industrial and Commercial Efficiency*, 1928, p. 10.

salaries in 1913. In 1929 they paid £115 million. To meet this rise in the wages of a "sheltered" industry, the "unsheltered" export industries are penalised by high rates.

As regards taxation costs, I do not propose to add to what has been said already as to their high burden and as to the necessity of compression.

VI

But it remains to ask, Though the trade of the world may be expanding, and though our workmanship may be of unsurpassed excellence, and though our machinery and our marketing are on their way to be restored to the first rank, and though costs are the subject of the closest attention upon the part of the best heads in this country, have we the will, the resolution, the moral force, to push our way to victory over the stricken field of the Economic War? I will take one or two illustrations to show that we have. Observe the great iron and steel industry, on its export side. And then observe another organisation which must be ranked as an export industry, the City of London itself, in its sense of the London Money Market. Let us see how in each of these cases, both demanding very special qualifications and both very essential for our future, Britain shapes for the Economic War.

Our iron and steel industry is to-day only fourth in the world, coming in the rear of those of the United States of America, of France, and

of Germany. Yet, in a normal year even of these depressed times, such as 1929, the iron and steel industry can still export some £70 million of goods, though with falling prices that figure must be contracted to-day. Granted that, whereas in 1913 we were producing, say in pig iron, up to 93 per cent. of capacity, in 1929 we were producing only up to 63 per cent. of capacity. Similarly, in steel. For we have been burdened with fixed assets largely in excess of market needs, incapable of producing profitably at ruling prices, adding to costs through large overhead charges, and depressing prices through excessive competition. During the years since the war we must accept the verdict of the Committee on Industry and Trade, arrived at some four years ago, that "it is probable that the average practice in this country is behind the average practice on the Continent." ¹

And now consider what has been in process here during the few years since the Committee arrived at its conclusion. A type of amalgamation has been evolved, not all-embracing certainly, but based on the great existing iron and steel areas, such as South Wales, the North-east Coast, Scotland, the West Coast and Sheffield. The South Durham Steel and Iron Company unite with the Cargo Fleet Iron Company: Dorman Long fuse with Bolekow Vaughan. In 1930 we are presented with the amalgamation

¹ Committee on Industry and Trade, *Survey of Metal Industries*, pp. 27-8.

of Guest, Keen & Nettlefolds with Baldwins. William Beardmore and David Colville & Sons reach a working agreement. In May 1930 three great Lancashire firms reorganise: they split their coal and steel resources between two companies, the steel plant being controlled by a new company, the Lancashire Steel Corporation. Parallel to these changes in the iron and steel industry, we witness a reorganisation in the heavy engineering industry.

“The upshot of all these developments has been the creation, at all events in the principal producing areas, of great corporations which dominate the local output . . . between them, these firms probably control from half to three-fifths of the pig iron and steel output of the country. . . . The only important remaining area in which democratic anarchy prevails is the Midlands and there long-standing traditions of independence are being stubbornly maintained.”¹ Evidently, then, all this is only a beginning. An immense amount of work remains to be done. These British concerns, which can produce at most 2,500,000 tons of iron and steel a year, are small beside the German Steel Works Union, producing 12,500,000, or so, tons of iron and steel a year; or beside the United States Steel Corporation, producing 25,000,000 tons. Nevertheless, this is not to say that our own plan and policy are not better: they are more suited,

¹ Article by Mr. Jules Menken, entitled “Reorganisation in the Steel Industry,” August 1930 number of the *Nineteenth Century and After*, pp. 188–203.

probably, to British conditions, and fully as efficient, let us hope, for that strenuous Economic War which will be our lot for generations to come.

For, after all, Germany, demoralised by deflation, with supremely important producing areas taken from her by the Peace Treaty, and bereft of working capital which she has had to borrow at high rates, has carried through since 1924 one of the most complete and effective reorganisations of an iron and steel industry in the world. We are doing the same six years later.

Besides this, let us realise that, to take the steel side of the industry, though 120 million tons are produced in the world in a year, and though Great Britain is only fourth as a producer, yet she still stands first as an exporter, accounting for about 30 per cent. of all the steel exported in the world. In Australasia, in Africa, in Asia, even in South America, the scene of the fiercest of all engagements, her position is remarkable. In Europe itself, with Germany, France and Belgium to contend with, Great Britain provides one-tenth of the steel. "Thus the British iron and steel industry, even in the worst of times, has a place in the sun which her competitors will not easily conquer."¹ For her natural advantages are blast furnaces and steel works well placed near her coal supplies, and usually

¹ Article by Mr. Jules Menken, entitled "Reorganisation in the Steel Industry," August 1930 number of the *Nineteenth Century and After*, p. 203.

on the sea; the most skilled and reliable workers in the world; the highest and most merited reputation for products of supreme quality. Besides, in the marketing branch, we have seen recently organised an Export Association for developing trade overseas, and a Steel Works Association for the purpose of extending the market at home. Thus, Britain asserts herself.

Let us turn to consider the situation in regard to that other export industry above mentioned, the Financial Market of London. Are the great economic forces of our time and of the future likely to weaken or to strengthen it? Is it on the upgrade or the downgrade?

The Financial Market of London signifies the group or circle of financial institutions centred round the Bank of England. These are (1) the Banks proper, consisting of (a) the ten London clearing banks, headed by the Big Five; (b) the Overseas and Colonial banks, so called, *i.e.* the British banks operating abroad; and (c) the Foreign banks located in London.

Next in order to the Banks come (2) the Finance Houses. These may be classified into (a) the Merchant Bankers or Acceptance Houses, making a speciality of financing trade; (b) the Investment Bankers, who deal rather with investments than with trade; and (c) the Merchant Houses, though in this last case we approach Mincing Lane, which deals in produce rather than in money.

Next we come, in our passage round the circle,

to (3) the Discount Houses, headed by the Big Three, and the Bill Broking Firms, numbering altogether about thirty. Next there are (4) the Stock Exchange and the Stock-broking firms. The Stock Exchange constitutes an important part of the Money Market in virtue of its custom of making short loans against stocks from "account to account." It thus affords the banks an opportunity for short-term lending.

In the next place there are the numerous (5) Investments Trusts; and lastly, may be named (6) the Insurance Companies, of which there are some fifteen major ones. Here is a rationalised industry.

Looking at this Market as a whole, it must be acknowledged that almost every economic factor adverse to its prosperity has been in operation since the War. The convulsions in foreign currencies and the upset of our own, which as recently as 1920 was depreciated 34 per cent. relatively to gold as represented by the dollar; the unequalled burdens of taxation and of a staggering National Debt; the stoppage of 1926, which is supposed to have cost us not less than £275 million; the general loss of trade due to foreign tariffs; the huge scale of unemployment; the rise of American rivalry, as to which the present French Prime Minister could say in 1927—he could not say it to-day—that "New York has become the financial centre of the world"—all these factors, and many more, have been, or are to-day, prejudicial to London. Nevertheless,

this Market is so strong that, in 1929, a year of unequalled stress, its purely financial international operations earned a net "invisible" revenue for Great Britain of about £65 million. And this figure, according to the calculations of the Board of Trade, tends to increase, and may even be considered an under-estimate, as it is.

It is often said, however, that, in spite of any show of present strength, London tends to be outpaced in resource and energy and to be superseded by modern developments. Nevertheless, the evidence points in the opposite direction.

It can, indeed, be shown that increasing vitality and sustained originality in finance are the particular characteristics of London. Take the recent growth of Investment Trust Companies, one of the classes mentioned in the above enumeration. Owing to the complexities and uncertainties of modern investment, it was felt some years ago that some special institutions should be formed to meet the needs of the investing public. London led the way. Hence the creation in recent times of Investment Trust Companies.

The purpose of these Companies is to raise capital from the public and to invest it in all quarters of the world on behalf of their shareholders. So vast has been the growth of this system in recent years that there are now about 203 of these Companies with an issued capital, including the debenture issues, of approximately £288 million. This growth has been so rapid

that, in the year 1929 alone, no less than £57 million was subscribed for this purpose by the British public, and in that same year no less than thirty-four new Investment Companies were formed. The financiers of the United States have recently followed the example thus set. Nevertheless, the initiative in this new departure has been with London.

If we glance at the manner in which these Investment Trusts place their funds, it is interesting to observe, on analysing and amalgamating the accounts of some twenty-six leading companies, that about 37 per cent. of the invested money remains in English securities, about 17 per cent. goes to Europe, about 10 per cent. to the British Empire overseas, while the balance is mostly in North and South America. In other words, while a total of about 37 per cent. of money raised from the British public is re-invested locally, the remaining 63 per cent. is invested internationally and goes to build up the trade of the world. To this extent the stream of British savings is directed, on the best expert advice, into international channels, in an original, serviceable, and profitable manner. Here are further proofs of the vitality and initiative which characterise the City of London.

Let us now turn to the Acceptance Houses, in order to ascertain what light their operations cast upon our subject. Here again it can be shown that the Financial Market of London is an increasing, rather than a diminishing, force in

the world. Notice, firstly, that these Acceptance Houses are almost all of foreign origin, and next that, this origin being European, they have specialised particularly in Continental business. We must realise how that business has grown in the last few years owing to the urgent need for repairing the financial, industrial, and commercial structure of Europe. In the case of the Investment Trusts which we have just been considering it is noticeable that, whereas in 1923 they had only 4.5 per cent. of their holdings in Europe, to-day that figure is about 17 per cent. The call for the reconstruction of Europe has afforded an opportunity to the Acceptance Houses. For instance, before the War the large German banks had offices in London enabling them to give a London domicile to their acceptances, which could thus be freely discounted on that market. The War having swept this business away, the Treaty of 1925 with Germany enabled it to return to its London home. Probably, however, owing to the shortage of capital in Germany, this opportunity has not been taken advantage of to a very material degree, with the result that the financing of German foreign trade has passed to an important extent to the Acceptance Houses of London, and that these are at present an increasingly powerful factor in the international trade of Europe.

The recent condition of Europe has also afforded another great opportunity to these Houses. Besides their purely acceptance busi-

ness, they are also the financial advisers of many foreign Governments, and undertake to issue their loans on their behalf. For these loans, apart from the strictly League of Nations' loans, have been issued by the Merchant Bankers, or at any rate by Syndicates organised under their auspices. Then, too—a novel feature since the War—there are all the numerous municipal loans issued by these Houses on behalf of the great cities of the Continent.

These facts are worth citing as further indications of the truth that, as with the Investment Trusts so with the Acceptance Houses, for example, London is an increasing, and not a diminishing, force.

Let us now turn our attention for a moment to the Discount Houses. From their operations and recent history we may likewise gather that the Financial Market of London tends to increase in strength. Just as the Investment Trusts primarily serve the needs of the British investor, and as the Acceptance Houses minister to the cause of European reconstruction, so the Discount Market of London increasingly facilitates the distribution of the goods of the world. During recent years the Discount Market of London has been exposed, on the one hand, to two very serious dangers, and, on the other, has benefited, or rather has appeared to benefit, by an important but deceptive advantage. The two evils have been, firstly, the uncertainty of the value of the pound sterling as measured in gold. We must

remember that parity with gold was never attained by the pound sterling from 1919 onwards until 1925. Such a divorce of the pound sterling from parity would, it need hardly be said, have proved sooner or later disastrous to the Discount Market, and, indeed, to the whole of the Financial Market of London. For, evidently, to draw upon London or to leave balances in London would be a risky proceeding in the exact ratio of that uncertainty.

The other danger which has threatened the Discount market in recent years has been the high rates for money charged in London. For, naturally, the trader draws bills upon the place where he can get the cheapest rate, other things being equal.

Fortunately for the London Market, the first of these dangers was finally exorcised in 1925, since which date the pound sterling has been maintained practically at its gold parity, while the second danger is also passing away, assisted very materially by the explosion of the American boom in the autumn of 1929. The Discount Market, having shaken off these two major risks, tends at the same time to be deprived of the factitious and artificial facility, a relic of war finance, which we have referred to above.

The facility in question was provided by the stupendous issue of Treasury Bills, which rose in December 1920 to no less a figure than £1,102 million. These Bills were ideal, of course, for the purposes of discount, but, owing to the

frequency of their renewals, are dangerous to the stability of public finance, as France has known very well. In these latter days, however, the above figure has fallen to somewhere about £700 million, still a gigantic amount. It will probably be reduced in future, and thus the Discount Market will have resort more than recently to bank bills, commercial bills *par excellence*, which, as distinguished from finance bills, are the sphere of its essential work.

As the late Chairman of the Westminster Bank has recently pointed out, a very large amount, in the aggregate probably some hundreds of millions of pounds sterling, is always afloat in bills drawn on London. There are, in addition, bills drawn on other financial and commercial centres; but none of them approaches London in amount. Since the War the Americans have done something to make a rival centre of New York; but the plant of custom is one of slow growth. The acceptance of bills was for long forbidden to American banks, and it is only recently that the custom has grown up of accepting dollar bills and employing them for international payments—chiefly for settlement between the American countries other than the United States, and New York. Some progress was made in the replacement of the pound by the dollar, while the pound was at a discount in the exchange; but since the resumption of the gold standard in London a check has been put upon the process.

Apart from the supposed rivalry of New York, it is often stated that Paris desires to organise a money market on the scale of London. It appears to me that France has four great advantages in that respect. She possesses a wonderfully stable economic system: she has great accumulations of capital: she has a huge store of gold: she has wide foreign affiliations. On the other hand, she has one or two drawbacks of a technical nature. She has followed the precept of Napoleon, who in 1810 wrote to Mollien that his desire was that over the doors of the Bank of France there should be inscribed in letters of gold the injunction that it was the duty of the Bank of France to discount all the bills of all the traders of France at 4 per cent.

This injunction, which has had such a profound influence on the history of French finance, is of the essence of democracy. It may be considered, perhaps, suitable for domestic trade. But in the great complexities of international business it could not stand. The Discount Market of London can only exist by the fineness of its discrimination between different classes of bills. If all bills were to be discounted at the same rate, one would hardly think that the Discount Market would flourish very long.

The next difficulty for France is that it has followed another injunction of Napoleon, who laid it down that the principle of his finance was multiplicity in taxation rather than the single-tax system which had been the policy of the

Physiocrates of the eighteenth century. It is this multiplicity of taxation which weighs so heavily upon the French Money Market at two points. Firstly, these taxes are immensely heavy and complicated for all French monetary transactions; and next, this system of taxation, in its aspect of Customs duties, impedes that free flow of commerce which alone enables a Money Market to be really great.

But it is said, in contradiction to all of this, that, since all old institutions sooner or later decay and are outpaced by modern developments, so it must happen soon, or is happening already, in the case of the London Market. Will not London experience the fate of Venice and Amsterdam? I do not think so.

The reason for this opinion is that the London Financial Market, in its present organisation, is not old, but very young. Its activities lie more in the future than in the past, for it is in substance a novel growth, as we can see by glancing at another of the great institutions mentioned above, the Banks grouped round the Bank of England.

The history of English banking, apart from that of the Bank of England, is the slow death of the numerous old-fashioned small banks with the right of note issue—the last of them died as recently as 1920—and the recent rise of the great Joint Stock Banks. Thus the Big Five are all very modern, as far as their existing organisation and their establishment in London are concerned. The earliest of them, the London and West-

minster, started life in London in 1834, while the other four began life in the Provinces and only arrived later in London. Thus the Midland Bank only became really important in the modern sense from 1880 onwards, soon after which date it started upon its great career.

The work of these institutions has been gradually to "rationalise" the banking system of the United Kingdom, to concentrate it into a few organisations, while maintaining active competition, on the one hand, and to extend banking facilities to the utmost extent, on the other. Thus, in 1844, when Sir Robert Peel passed the Bank Act, there were only something under 1000 banking offices in England and Wales, whereas to-day, in spite of the disappearance of the old banks of issue, there are 10,000 such offices. Again, whereas the total deposits of banks in England and Wales was about £200 million in 1844, to-day the deposits are approximately £2000 million. And, further, so skilful and scientific has been the concentration of credit in recent years that it may be said that between 1844 and to-day, while the volume of currency has increased five-fold, the banks have provided a ten-fold increase in the volume of credit. As the Chairman of the Midland Bank recently said (Jan. 22, 1930), "The development of our monetary machinery is just as remarkable as that achieved in the physical sciences. I must hasten to add, however, that we are by no means at the end of the road."

I mention all this not in order to explain our banking system, but in order to illustrate my belief that the Financial Market of London is young and not old, progressive and not backward, and is, indeed, at the opening, rather than at the close, of its career.

This conclusion derives much support if we now turn to the centre and core of the Financial Market, *i.e.* the Bank of England. The Bank of England has had, no doubt, a long career since the seventeenth century, but in recent times it has been twice transformed to meet the needs of the age. The first occasion was in 1844, when Sir Robert Peel passed his Bank Act. The next occasion has been the post-war period since 1919, and the individual responsible for this new progress has been the present Governor of the Bank, Mr. Montagu Norman. Let us confine ourselves to two salient examples of the new career now opening up for the Bank of England.

It will be noticed that, in the above summary of the financial institutions of the City, no mention has been made of any organisations specifically devoted to the financial reconstruction of our domestic industries, which is, indeed, one of the most important needs of the time. The Investment Trusts are not well qualified for that purpose, owing to their policy of spreading their risks very widely throughout the world; the Acceptance and Discount Houses have other occupations in the direction, chiefly, of distribution; while the Banks themselves, inasmuch as

they work primarily with their customers' resources—*i.e.*, with funds which can be withdrawn at sight or short notice—are evidently limited by this obligation to the provision of temporary credit for industry as distinguished from fixed investment. An important gap has, therefore, hitherto remained unfilled in the circle of our financial institutions, a gap immensely widened by the War.

This need is now in course of being met, as we have already noticed in another connection, on the initiative of the Bank of England, supported by the other Banks. In accordance with this policy, for instance, the Bank has departed from precedent in affording its co-operation to the Lancashire Cotton Corporation, an undertaking which is tackling the important problem of rationalising the American Spinning section of the Lancashire cotton industry. Or again, and more important still, the Bank has, as we have seen, recently launched the Securities Management Trust, an agency for the more general reorganisation of industry. Thus "the Old Lady of Threadneedle Street"—she was once old but is now young—is adopting new ways calculated to meet the needs of the new epoch.

Here, then, is a case of an export industry "rationalised," and free from the burden of antiquated machinery and obsolete marketing methods. It is another proof of what Britain can do to-day.

VII

It is only when we shall have adjusted our economic armament at home to the necessities of the new epoch opening before us that we shall be truly in a position to embark upon international economic action. Before organising the world, we must reorganise ourselves. Even so, the international task will be arduous and long. For, as we have seen already, the League of Nations itself has been able to achieve little or nothing, so far, in reduction of armaments or in mitigation of tariffs; indeed, during its term of existence, and in spite of its laudable activities, these evils have been considerably accentuated.

It follows, by irresistible logic, that, what the assembled wisdom of the world cannot accomplish, cannot be readily achieved by a single people. Assuredly, that does not imply that, where the world has failed, Britain should not lead the way. In fact, next to the internal reconditioning of our industries, our most imperative duty lies in the international field of economics.

At a recent meeting of the Royal Statistical Society, when the subject of Japanese competition in the cotton trade was under discussion, Sir Basil Blackett, in proposing a vote of thanks to the lecturer, made some significant observations in this regard :

“As regards the question of amalgamation, I

should like to ask one question. Rationalisation in Germany very quickly found that it could not really operate within national boundaries, and might even be dangerous if it did not bring other neighbouring countries into its province. The result is a definite movement in Europe towards the creation of an European international unit. I fancy the same thing must happen here. I wonder whether it is possible in the cotton industry, for example, for Lancashire to take an Imperial view, and to look to India, and see whether, in the case of India, it cannot regard itself not merely as a competitor, but as a fellow-producer of cotton goods in the British Empire, and come to some reasonable arrangement with the producers of cotton in India, assisting them to rationalise themselves.”¹

Singularly suggestive also were some observations offered by the Chairman of the British and German Trust at the General Meeting of that Company in March 1930. Referring to world conditions, the Chairman said: “One of the difficulties which must be recognised is that caused by the tremendous expansion which has taken place since the War in the whole vast industrial apparatus of the world. This expansion has taken place at a rate which, sooner or later, was bound to become disastrous unless consumption could keep pace with it, and this it has failed to do.

¹ Cf. *Journal of the Royal Statistical Society*, Vol. XCIII, Part II, 1930, pp. 222-3.

“It is true that big efforts, and in many instances successful ones, have been made to attain a more scientific control of production by amalgamation and cartelisation of kindred concerns. But it is also unfortunately true that this country lags behind in that respect, and is doubtless, therefore, feeling the result of the present crisis more severely than other countries. . . . This is due principally to the thorough rationalisation of our competitors, and only partly to the lower wages and lower standards of living prevailing abroad.”

The Chairman proceeded to point out that industrial reorganisation in this country “is an important step in the right direction, because it opens the way to international agreements, which, long as they may take to negotiate, should in the end, from the point of view of the world as a whole, lead to a wiser investment of capital and a better direction of the activities of labour than has been the case for the last few decades. . . . I think it is clear that, if we look ahead another generation, further unbridled industrial expansion will lead to trade wars of an intensity hitherto unknown, and to attempts, which we should all deplore, to depress the standard of living of the wage-earner. I hope and believe that the necessary measure of control over industrial development can be exercised by private enterprise through the means of international agreements, because, if not, it might be that Governments would feel impelled to

attempt to influence the lines along which such expansion should take place.”¹

Unbridled industrial expansion! Trade wars of an intensity hitherto unknown! That is precisely what threatens the world to-day.

In the remarkable address recently delivered by Sir Charles Addis before the Institute of Bankers on the subject of the recently instituted Bank for International Settlements, we are informed of one practical attempt at least to put the above principles of international action into actual practice.

This Bank has had its origin in the Committee appointed in October 1929 by the Central Banks of the seven principal Creditor Powers, Great Britain, France, Belgium, Italy, Germany, Japan, and the United States. Thus the leading financiers of three Continents are found co-operating, under the auspices of their respective Governments, in a great economic design.

Sir Charles Addis points out that the Bank's “chief function is to act as a centre of co-operation for Central Banks. . . . It owes allegiance to no single Government, and is forbidden to open a current account for any one of them. It has no right of note issue. It has no currency system of its own to protect, and is not, therefore, obliged to keep a reserve for that purpose. It is a unique creation. There has never been anything like it in the world before. . . . For

¹ Report in *The Times*, March 12th, 1930, of the speech by Mr. A. R. Wagg, Chairman of the Company.

the present we must content ourselves by saying that in its initial phase the Bank is a co-operative undertaking of the Central Banks of the Reparations countries with a limited participation granted to the Central Banks of other countries—in fact, a centre, a rallying point for Central Banks.”

And then, widening our field of view, Sir Charles Addis proceeds: “It is difficult to exaggerate the value of the opportunities which these meetings will afford for the personal touch, for the exchange of information about the conditions of their respective markets, for the interplay of ideas, for exploring the whole field of international credit and finance, for weighing the relative advantages of the various schemes submitted to them for the exploitation of undeveloped or imperfectly developed countries, and for examining the feasibility or the expediency of adopting a common policy and devising concerted measures, in order to avert or to mitigate the dangers which may be threatening the stability of the European currencies or of any one of them. I confess for myself that it is in this direction that I anticipate the most salutary results from the future development of the Bank for International Settlements. It is possible to see in it the promise of a financial association with the League of Nations, which, under wise and prudent management, may blossom into a powerful adjunct for the preservation of international peace. If so, it will be in

harmony with the spirit of the age, which is coming to recognise more and more that the destinies of man are being moulded by silent economic forces which it is folly to resist, and that it is only by acting with and not against them that he can hope to advance his fortunes.”¹

But if such ideas can operate in the realm of banking—in one branch, that is, of our economic life—why not in other branches too? Nay, why not in all? Why, in face of the ever-widening Economic War as it develops to-day and as it will develop in future generations, should we not labour to construct other organisations, parallel to the Bank for International Settlements, in each of the great international industries of the world? If, according to my argument, there be now a reasonable prospect of unity between Capital and Labour, why should not Capital, with its vast overseas affiliations, and why should not Labour, with its far-flung international connections, co-operate in such a task?

When, in after times, the history of the movement for the internationalisation of industry comes to be written, we may venture to prophesy that the historian of the future will ascribe the honour of initiating it to the Bank of England.

As the present Chancellor of the Exchequer wrote some years ago, the Bank has been effecting

¹ Address by Sir Charles Addis, April 3, 1930, before the Institute of Bankers, pp. 8-11.

in the world "a great but unseen revolution. . . . The Bank of England, under the guidance of Mr. Montagu Norman, has been the instrument which has brought a bankrupt and commercially-ruined Europe to some measure of financial stability." A sort of financial League of Nations has been slowly organised under British auspices. "For the first time in history a great financial institution . . . has become a world peace-maker and a succourer of the weaker nations. . . . The Bank is therefore in a singular position; it is perhaps the greatest moral authority in the world, and, at the same time, a financial institution of impregnable stability."¹ Thus a policy of economic internationalism has been preferred to a policy of economic nationalism.

In his book on the Stabilisation of the Mark, the President of the Reichsbank informs us that, besides being foremost in assisting the banking reorganisation of Germany in 1924, the Bank of England took the principal part in overcoming the many difficulties confronting the sponsors of the plan.

In 1923 it was the Bank of England which, according to the Chancellor of the Exchequer, "saved the Austrian Reconstruction Loan and saved Austria. This was a very remarkable exhibition of financial diplomacy." Prior to 1924 the financial and economic situation in Hungary was almost desperate, but the inter-

¹ The Rt. Hon. Philip Snowden, M.P., Article in *The Banker*, May 1927.

vention of the League of Nations and the Bank of England saved the situation.

In Greece the Bank of England not only materially assisted that Government, but also made it possible for Greece to obtain fair terms for the Greek Refugee Loan.

In Belgium the Bank of England took a leading part in the negotiations of 1926 relating to the stabilisation of the Belgian franc. The Governor of the Bank of Belgium has highly eulogised the work accomplished in this matter by the Governor of the Bank of England.

In the course of the memorable evidence presented in 1926 by the Governor of the Bank of England to the Royal Commission on Indian Currency and Finance, sitting under the Chairmanship of Sir E. Hilton Young, the Governor observed: "I wish to look at this matter internationally, for the moment, because no one thing has more impressed itself on my mind during the last few years than that we are all becoming knit one with another, and that whatever one country does affects all other countries." And then, after setting forth the technical methods, the Governor proceeds: "That, I believe, is the way in which Europe, and countries beyond Europe, may eventually solve the question of stability, of security of note issues, of prices, and of co-operation one with another—all moving together forward. Many countries are developing in that direction. No one country, I think, has the power to run

ahead, to any great extent, of the others. I believe the advantage of the many, as well as the advantage of each one, is that this progress should be gradual and united. These are the general views I would like to put before you.”¹

VIII

The theme of this book has been that, during generations past, an Economic War has been waged in our midst, of varying fortunes and intensity, between Capital and Labour. I have endeavoured to trace the causes of that strife, and to describe the measures adopted at the instance of sage Economists, of far-sighted Statesmen, and of Organised Labour, to terminate it.

Unfortunately, step by step with the decline of that immemorial combat, another issue of wider and more crucial import has succeeded thereto. The main casualties of this new warfare are those two million of unemployed persons who fill our thoughts to-day.

This new issue, which will confront us for generations to come, I have termed the war of Labour against Labour, in the sense that mighty international industries, comprising in that term both Capital and Labour, organise against each other on a scale of power never known before. Owing to a long train of causes, this new conflict has caught the giant industrial energies of

¹ Answer 13,740 in Volume V of the Evidence before the Royal Commission on Indian Currency and Finance, 1926.

Britain relatively unprepared. Consequently, it is not a superfluous task to elucidate the significance of this new evolution in world economics, and to point, however imperfectly, the way to victory.

Nevertheless, as we gaze, with all the earnestness and with all the scientific resources which we can command, into the future, it must become clear to us that, victory in the Economic War having been achieved by Britain, mere victory is not enough. It is not enough to outvie others by superior workmanship, by better organisation, by more astute marketing, by more resourceful finance. To consign others to the miseries of unemployment or to a reduced standard of living—that is not a policy fit to earn the laurel wreath.

Britain seeks, far otherwise, the prosperity of all. Her march is on the world-wide waters. Her industrial watchword is association, not ascendancy. And the crown of her glorious career will be to secure, for her own and for all other peoples, the economic co-ordination of the world.

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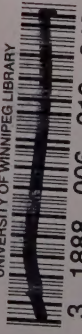
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